

MEETING  
STATE OF CALIFORNIA  
CALIFORNIA PERFORMANCE REVIEW COMMISSION  
PERFORMANCE-BASED MANAGEMENT, PERSONNEL, TRAINING  
PROCUREMENT AND INFORMATION TECHNOLOGY

BARRETT BALLROOM  
STUDENT UNION  
SAN JOSE STATE UNIVERSITY  
1 WASHINGTON SQUARE  
SAN JOSE, CALIFORNIA

FRIDAY, AUGUST 27, 2004

10:00 A.M.

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

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COMMISSION MEMBERS

Bill Hauck, Co-Chairperson  
President, CA Business Roundtable

Joanne Kozberg, Co-Chairperson  
Partner, CA Strategies

Jess "Jay" Benton, Executive Vice President  
ABM Industries

Dale Bonner, Partner  
Epstein Becker & Green, P.C.

James Canales, President & CEO  
The James Irvine Foundation

Mike Carona, Sheriff  
Orange County

Patricia Dando, Vice-Mayor  
City of San Jose

David Davenport, Distinguished Professor  
Pepperdine University

Joel Fox, President  
Small Business Action Committee

Steve Frates, Ph.D.  
Claremont-McKenna College

Russ Gould, President  
The Gould Group

Irene M. Ibarra, Executive Vice President  
The California Endowment

J.J. Jelincic, President  
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Peter Taylor, Managing Director  
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Carol D. Chesbrough, Chief Deputy Commissioner  
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Gerald H. Goldberg, Executive Officer  
California Franchise Tax Board

Jim Hard, Employment Program Representative  
Employment Development Department  
President, SEIU Local 1000, CSEA

Thomas D. Hinton, Jr., President & CEO  
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Kelly J. Montgomery, Senior Manager  
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Larry Stone, Assessor  
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Clark Kelso, Team Leader

Bernard Soriano, Team Leader

Denzil Verardo, Team Leader

Susan Hogg, Team Leader

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1 P R O C E E D I N G S

2 COMMISSION CO-CHAIRPERSON HAUCK: Good morning,  
3 everyone, we've got to get started. This is the third  
4 hearing of the California Performance Review Commission.

5 I'm Bill Hauck, one of the Co-Chairs of the  
6 Commission. To my left is Joanne Kozberg, my fellow Co-  
7 Chair.

8 I'd like to introduce the Acting President of San  
9 Jose State, Don Kassing, who has a few remarks and welcome  
10 to the campus, my alma mater, by the way, and then we'll  
11 proceed. Don.

12 ACTING PRESIDENT KASSING: Bill, thank you. Good  
13 morning, everyone and welcome to San Jose State University.  
14 We are very pleased to host the third hearing on the  
15 recommendations of the California Performance Review Team.

16 It's an important opportunity for Californians to  
17 review the work of the team and express their views on State  
18 government reform.

19 We are particularly pleased to host the panel  
20 because it reinforces our own efforts to use our resources  
21 thoughtfully and carefully on the campus.

22 There's a conversation that we have periodically  
23 on the campus, with our employees, and it goes something  
24 like this, we ask the question, do you understand or do you  
25 know where your resources come from? And the cycle that

1 conversation goes through is they'll say, well, my tax  
2 dollars, or the family next door's tax dollars, or the  
3 student that I pass walking across the green, their fees.

4 And there's this interesting realization that we  
5 come to, is that we are spending somebody else's hard-earned  
6 money and we need to spend it very carefully and  
7 thoughtfully.

8 San Jose State is also very pleased to be the site  
9 of this hearing for another reason, our campus has a long  
10 and strong tradition of participatory collegial governance.  
11 We encourage broad participation and input on numerous  
12 campus decisions.

13 We are proud of the outstanding and ongoing work  
14 of our Academic Senate and our associated students. In this  
15 past year we had a wonderful participation from the campus  
16 as we prepared for our reaccreditation from the Western  
17 Association of Schools and Colleges.

18 Our participatory approach also benefitted us well  
19 in the recent cycle of budget cuts. We created a Resource  
20 Planning Board last spring, with the members from all  
21 sectors of the campus. This Board did an outstanding job of  
22 reviewing our entire budget, staying focused on  
23 institutional priorities and making the difficult decisions  
24 needed to cut \$14 million from our budget.

25 We spent considerable time on an analysis of our

1 core services, asking hard questions about what was  
2 mandatory, what was essential to the mission of the  
3 University, and what might be value added.

4 As a result, we protected instruction, avoided  
5 layoffs, and expect to reach our enrollment targets.

6 At the completion of this work we have maintained  
7 good financial equilibrium. We didn't cannibalize one part  
8 of the University to shore up another.

9 Now, I mention these things particularly in terms  
10 of what's happening here today. The Panel members know,  
11 it's imbedded in their process, it's imbedded in the way  
12 they think and they work, that we can all learn from these  
13 kinds of discussions.

14 And it reminds me of the last 12, 14 years in the  
15 private sector, where the many tools of the quality  
16 improvement cycle have come into play, Balanced Scorecard,  
17 Malcolm Baldrige Quality Award, et cetera, Sig Sigma.

18 A few final comments. While you're here, and I  
19 know you probably have a busy day, we want you to take time,  
20 if you can, to visit the new Martin Luther King, Jr.  
21 Library. It's a wonderful example of a joint project, a  
22 joint partnership between two agencies, the City of San Jose  
23 and San Jose State University. It's a marvelous success.  
24 It works.

25 At the other end of our campus is our new Campus

1 Village. It's well on its way to completion, it will open  
2 up next fall. It's the third largest construction project  
3 in Santa Clara County. I think I saw Larry Stone walk in  
4 here. I was going to look at him and tease him for a  
5 minute, but I lost him.

6 (Audience feedback.)

7 ACTING PRESIDENT KASSING: There he is. It's on  
8 time and it's on budget.

9 You may have also read about the \$6.6 million  
10 agreement that San Jose State just signed with the San Jose  
11 Redevelopment Agency to co-manage the City's new Bioscience  
12 Incubator and Innovation Center. This partnership is  
13 already leading to linkages with university academic  
14 programs, such as our master's in biotechnology, as well as  
15 student internships.

16 There's much more good news about San Jose State,  
17 but that's not why you're here.

18 So we want to welcome you here, hope that you have  
19 a terrific day in this engagement about how we can improve  
20 what we do.

21 So thank you very much for being here. Bill,  
22 thank you, and Joanne.

23 (Applause.)

24 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.  
25 Can you hear me? Great.

1           In February of this year Governor Schwarzenegger  
2   formed a team of seasoned State government veterans, 275  
3   insightful State employees came together and produced a  
4   government for the people, for a change.

5           We're delighted to have the Panel here, today,  
6   that is dealing with government, performance reviews, also  
7   technology, personnel.

8           I just want to make a distinction, because on my  
9   voice mail this week there were many who credited us and  
10   blamed us for the report. We are not those 275 insightful  
11   State employees. We are phase two.

12          We are taking the California Performance Review  
13   throughout the State of California so that we can hear  
14   differing perspectives and viewpoints from experts in the  
15   field, as well as residents of the State of California,  
16   generally.

17          So we're delighted to be here, in San Jose, today.

18          A few housekeeping details. We've scheduled  
19   testimony today, public testimony for about two hours. You  
20   know there are sign-ups. We've had a huge response  
21   throughout the State, and should you be unable to orally  
22   present your comments, please know that all written comments  
23   will be given to the Commission, and that also in the back  
24   there are computers so that you can log on your observations  
25   and remarks, and we will receive those, also, in the

1 testimony.

2 We are asking that all of us, including the  
3 Commission, turn off our cell phones.

4 And also, to let you know who we are, if we could  
5 ask our Commission to go around the room and briefly  
6 introduce ourselves. Mike.

7 COMMISSIONER CARONA: Mike Carona, Sheriff, Orange  
8 County.

9 COMMISSIONER FOX: I'm Joel Fox, Small Business  
10 Action Committee.

11 COMMISSIONER JELINCIC: J.J. Jelincic, President  
12 of California State Employees Association.

13 COMMISSIONER GOULD: Russ Gould, the Gould Group.

14 COMMISSIONER DANDO: Pat Dando, Vice Mayor, City  
15 of San Jose.

16 COMMISSIONER OLSEN: Steve Olsen, Vice Chancellor  
17 for Finance and Budget at UCLA.

18 COMMISSIONER O'NEILL: Beverly O'Neill, Mayor of  
19 Long Beach, California.

20 COMMISSION CO-CHAIRPERSON KOZBERG: I'm Joanne  
21 Kozberg, California Strategies, and former Secretary of  
22 State and Consumer Services.

23 COMMISSION CO-CHAIRPERSON HAUCK: I'm Bill Hauck,  
24 I'm the President of the California Business Roundtable.

25 COMMISSIONER FRATES: Steve Frates, Senior Fellow

1 at the Rose Institute of State and Local Government.

2 COMMISSIONER BONNER: Dale Bonner, former  
3 Commissioner and private attorney in Los Angeles.

4 COMMISSIONER DAVENPORT: David Davenport,  
5 Professor of Public Policy at Pepperdine University, and a  
6 Research Fellow at the Hoover Institution.

7 COMMISSIONER IBARRA: Irene Ibarra, the California  
8 Endowment.

9 COMMISSIONER CANALES: Jim Canales, President of  
10 the James Irvine Foundation.

11 COMMISSIONER BENTON: Jay Benton, Retiring Chief  
12 Operating Officer, currently Executive Vice President, ABM  
13 Industries.

14 COMMISSIONER TAYLOR: Peter Taylor, Managing  
15 Director at the investment banking firm of Lehman Brothers.

16 COMMISSION CO-CHAIRPERSON KOZBERG: I also want to  
17 call your attention to the fact that the Legislative  
18 Analyst's Office has come out with their observations on  
19 California Performance Review, and we do have documents,  
20 don't we, soon, that you can get your copy and also it is on  
21 the computer.

22 Now, we're going to turn to Chon Gutierrez, who  
23 has done an amazing job of assembling very talented people  
24 to bring this report forward.

25 CO-DIRECTOR GUTIERREZ: Thank you, Madam Chair,

1 Mr. Chairman. Members, it's a pleasure to be here with you  
2 this morning.

3 I want to say a word or two about those 275  
4 dedicated State employees that are responsible for this  
5 document. First of all, we had over 2,000 people apply, who  
6 wanted to be a part of the process, and we selected those  
7 individuals that had a good sense of how government works,  
8 that had strong research skills, and had been involved in  
9 government, and understood its nuances.

10 We put the team together in response to the  
11 Governor's Executive Order, that the Chair mentioned, to  
12 make California government more responsive, more  
13 accountable, and to some extent to respond to the quote of  
14 "blowing up the boxes." We wanted to look at government  
15 from top to bottom and leave no stone unturned.

16 It is quite a challenge. The teams we put  
17 together were very focused on trying to achieve the goals of  
18 the Governor, and that is to make government more efficient  
19 and more responsive.

20 We structured the effort in a two-part process.  
21 And this, too, Madam Chair, is creating some confusion.  
22 There is a process that we call the Little Hoover Commission  
23 process, which is a specific legislative vehicle for  
24 changing the way government is organized. So we used that  
25 as a vehicle for some of our recommendations.



1           We also put together the two-volume document, the  
2 document that looks like the former Governor budgets that  
3 were produced years ago, that has some 2,500 pages, that has  
4 some 240 subject areas, and a little over a thousand  
5 recommendations.

6           That is a document that focuses on policy issues  
7 on how to deliver the existing level of services in a more  
8 efficient way, without reducing the level of service. Those  
9 will require either administrative action, executive orders,  
10 regulations, things of that nature, that are under the  
11 authority of the Governor, but it will also require  
12 legislative changes in the form of traditional bills.

13           So the restructuring process, we recommend that  
14 the Governor use the Little Hoover Commission process, and  
15 for the policy issues we recommend that he either take  
16 administrative action or introduce legislation.

17           The guiding principles that we used in this effort  
18 were, one, to put the people first. We wanted to focus on  
19 customer service is another way of saying that same thing.  
20 To people that require services from government, we wanted  
21 to make it easy and transparent for them to receive  
22 services.

23           We wanted to recognize that that's also a very  
24 effective way of optimizing the tax dollars that we should  
25 be taking from the people for purposes of government, and

1 that we needed to look at government in a way that is  
2 strategic and visionary, that has long-term goals and  
3 objectives, that focuses on more than one fiscal year, and I  
4 use the term "fiscal year" deliberately, that we look in  
5 terms of multiple years, where we want to be in five to ten  
6 years.

7 And lastly, that it be performance-driven, that we  
8 know that we're making progress on our strategic objectives,  
9 that we simply don't put plans out there, allocate money,  
10 and then just not go back and make sure that we're making  
11 progress towards those strategic goals.

12 It's my pleasure, today, to introduce the team  
13 that will be presenting to you three areas that we looked  
14 at, four actually, for the team responsibilities.

15 To my left is Susan Hogg, who is one of the Team  
16 Leaders who was responsible for the State and local  
17 partnership. That is not a subject that you're going to  
18 hear today, but she was part of that team that focused on  
19 that issue.

20 The last time we were together, which was in San  
21 Diego, I introduced the Panel as having 100 years of  
22 experience in State government. And so today, these three  
23 gentlemen to my right, I wanted to characterize them in some  
24 fashion, and so I decided that between the three of them  
25 they have more degrees than a full circle.

1 (Laughter.)

2 CO-DIRECTOR GUTIERREZ: There must be somebody  
3 else with a degree behind me.

4 On the far right is Dr. Denzil Verardo, who has  
5 been with the State Parks and Recreation for over 32 years,  
6 former Chief Deputy Director. An innovator in budgeting, he  
7 was one of the individuals that first introduced the concept  
8 of performance-based budgeting. He's a nationally known  
9 expert on the subject.

10 Next to him is Bernard Soriano, Dr. Bernard  
11 Soriano, who is a Chief Information Officer with the  
12 Department of Forestry, formerly with the Secretary of  
13 State, and currently the Chief Information Officer with the  
14 Department of Motor Vehicles.

15 And immediately to my right is Clark Kelso, an  
16 individual with a long reputation for strong management  
17 skills. He has stepped in, whether it has been crises in  
18 government, he's brought stability to that organization, and  
19 he is currently the Chief Information Officer for the  
20 Governor of the State of California.

21 TEAM LEADER KELSO: Thank you, Chon. Good  
22 morning, Commissioners, it's a very great pleasure to be  
23 here.

24 I'm going to begin our presentation by giving you  
25 a bit of an overview of what is to come. We'd like this to

1 be as interesting and interactive a discussion as we can, so  
2 it's not just us presenting dry information. And feel free  
3 to, of course, then interrupt at any time with questions or  
4 comments.

5 What I would like to do initially here is  
6 highlight some of the overarching themes and goals that I  
7 think you see in the sections of the CPR report that we're  
8 presenting today, dealing with general government  
9 operations.

10 We're going to talk some, obviously, about  
11 administrative efficiency and how we can achieve some of  
12 those efficiencies, personnel issues, procurement reform,  
13 and issues dealing with the State's Information Technology  
14 Program.

15 Now, the overarching themes, that at least I've  
16 identified in the report, as I've gone back and reread it, I  
17 think are these; first, a goal or a theme of operating the  
18 Executive Branch more as a single organization, instead of  
19 as what I'm referring to as a conglomeration of entities.

20 Now, the dictionary definition of conglomeration  
21 is actually a miscellaneous mass of things. And I think  
22 that does, to some extent, fairly characterize California's  
23 Executive Branch. It's overloaded with entities.

24 One thing we do, both in the reorganization  
25 proposal and in many of the specific issue proposals and

1 recommendations, we're trying to say let's treat that  
2 organization as a single, integrated entity.

3           One of the other major themes you see is right-  
4 sizing the Executive Branch. It relates to the  
5 reorganization, it relates to the human capital crisis that  
6 you're going to be hearing about a little later this  
7 morning, and that is a key feature of our immediate future  
8 in the Executive Branch.

9           We need to have an investment in our work force.  
10 In part, this is to respond to the human capital crisis that  
11 we're seeing. In large part, it's to get productivity  
12 improvements. The best way to get productivity improvements  
13 is to invest in your work force through recruitment,  
14 training, human relations systems that we need to have in  
15 place, things we need to inform.

16           A next major theme is an investment in information  
17 technology and this also relates to the theme of  
18 productivity improvements, doing more with less. I think  
19 one of the things we recognized, and I believe many people  
20 have recognized, the private sector went through, in the  
21 1990s, a similar sort of revolution in their operations.

22           They adopted information technologies to improve  
23 productivity. They right-sized their operations, as well,  
24 to make themselves more productive and more competitive.  
25 And overall, I think that's a theme that the Executive

1 Branch, at this point, should be following.

2 Finally, and most importantly, we need to replace  
3 the process orientation, that dominates virtually everything  
4 that happens in the Executive Branch, with a performance-  
5 based or a results-oriented culture. And perhaps we don't  
6 replace it, perhaps it's that we supplement it.

7 But we need to get ourselves focused on producing  
8 results, measuring those results, and then making planning  
9 decisions and budgeting decisions in response to those  
10 results.

11 And I think you're going to be hearing a fair  
12 amount about those five overarching themes this morning,  
13 from this Panel.

14 Let me turn first, briefly, to administrative  
15 efficiency, and this really relates to some of the comments  
16 I've already made. It seems clear to the CPR, and it seems  
17 clear in their report, we have common administrative  
18 services throughout State government, that are duplicated  
19 time, and time again. It simply is an artifact of the way  
20 the Executive Branch is structured.

21 There's a solution to that, that the CPR  
22 recommends, and that's simply the consolidation of those  
23 administrative functions. There are a variety of ways of  
24 doing that. There's, of course, an overall reorganization  
25 plan. A specific aspect of it, that's applicable to general

1 government, would be to consolidate certain administrative  
2 functions, the important administrative functions, into a  
3 single Office of Management and Budget, that would have,  
4 within its portfolio, budgeting, human resources issues,  
5 accounting and financial, information technology,  
6 procurement. An organization that would be responsible for  
7 State operations.

8           Now, we have all of those functions now in the  
9 Executive Branch, it's just that they are separate from each  
10 other in a way that really does introduce inefficiencies,  
11 and it makes it difficult at times for government to be  
12 responsible to changing conditions.

13           We're going to be hearing also about personnel  
14 issues today. Dr. Verardo's going to be talking about the  
15 consolidation and updating of State Civil Service  
16 classifications, the need to develop a statewide recruitment  
17 program, a plan for introducing and improving our training  
18 programs, that will help give our workers the skills they  
19 need to do their jobs.

20           We need to create a performance culture in State  
21 service, that goes along with a performance-oriented and  
22 performance-based evaluation system.

23           And we also need to, in terms of recruiting,  
24 reestablish the value in public service, reestablish public  
25 service as a very well-respected profession that people

1 should be excited to enter into.

2 And, of course, we need to look at our employee  
3 discipline systems. Now, these are just a few of the things  
4 we need to do to improve our overall personnel systems.

5 On procurement reform, this is an effort that's  
6 been, in a sense, underway, in one form or another, for a  
7 good decade or so. And the CPR, I think, has done really a  
8 masterful job of pulling together all of those threads of  
9 discussion over the last decade and proposing some very  
10 focused improvements.

11 The first relates to realigning who has  
12 procurement authority for what purposes? Right now, that's  
13 confused. The Department of General Services has both  
14 policy-making authority and it also has involvement in  
15 individual procurements oftentimes.

16 CPR, I think, recognizes that it's better to  
17 separate strategic issues from implementation issues, and  
18 there can be a realignment that will make that happen.

19 The CPR recommended a Strategic Sourcing  
20 Initiative. It is an idea that we are so convinced has  
21 great merit and will save substantial sums. The Department  
22 of General Services began the Strategic Sourcing Initiative,  
23 essentially, at the beginning of July, and we are nearing  
24 the end of the first phase of that Initiative, where we're  
25 gathering, really for the first time systematically, all of



1 the information that we have about what the State purchases.

2 That's the first step in this type of initiative,  
3 you need to know how much you're buying and from whom, then  
4 you can analyze categories of your spending into a better  
5 job of procurement.

6 Performance-based contracting is something that,  
7 again, we're already starting to do. It's something that  
8 can improve the allocation of risks between the State and a  
9 vendor, giving the vendor more of a stake in contract  
10 performance.

11 E-procurement, we need to bring the tools of  
12 electronic systems to procurement. We'll talk more about  
13 that a little bit later.

14 And then, of course, the sale of surplus property.  
15 There's a garage sale going on today, for the first time, at  
16 the Department of General Services. It's both in person and  
17 on the web, and we're looking forward to seeing the results  
18 of that.

19 On the Information Technology Program, I think you  
20 see sort of three major themes. First, what I've been  
21 calling "Smart Services." We need to improve the State's  
22 delivery of services, benefits, and information to the  
23 public, and technology really has an important role to play  
24 in doing that.

25 We have just a few, I've listed here a few

1 specific examples of how we can do that. The State portal,  
2 the Department of Motor Vehicles portal, making an expanded  
3 use of electronic benefit transfer technology, one-stop  
4 licensing centers. There are scores of recommendations in  
5 the CPR report that are similar to those, that across the  
6 board we can make substantial improvements.

7 What I think CPR has recognized, and I'm going to  
8 ask Dr. Soriano to weigh in at this point, is that the  
9 current state of service delivery is antiquated. And  
10 Bernard, perhaps you can fill in some of the details on  
11 that.

12 TEAM LEADER SORIANO: Sure. Thank you, Clark.

13 What Clark was mentioning deals with what we see  
14 in government, and the delivery of services in government  
15 typically would require a paper-based system, standing in  
16 lines at multiple windows, and inputting data over and over  
17 again, the same data.

18 Using technology, we're able to circumvent that  
19 and to make it more streamlined, more efficient, and make  
20 the process a lot easier for the consumers. Using the  
21 portal would be such a way that we could do that and we can,  
22 more importantly, make it from a statewide focus, as opposed  
23 to having individual departments and agencies provide their  
24 own program, where they are requiring the same information  
25 from one person.

1           By having a statewide focus, we're able to affect  
2 economies of scale, reduce the overhead, and make us more  
3 efficient.

4           TEAM LEADER KELSO: But I wondered, just a couple  
5 of examples of the sorts of things that we really could and  
6 should be doing, even at the Department of Motor Vehicles,  
7 what are some of the improvements that we can make, just by  
8 way of example?

9           TEAM LEADER SORIANO: Well, okay. Typically, what  
10 we can do is when you go in and you have to renew your  
11 license, or renew your registration, typically you either  
12 have to go in person at the DMV, stand in line, and do a  
13 paper transaction, or now we are rolling out technologies  
14 which would allow you to do that in a more efficient way,  
15 such as over the web. Having your registration and having  
16 the adequate security on your registration would allow you  
17 to do that over the web, as opposed to going and standing in  
18 line, or having to make an appointment with the DMV.

19           We're also looking at service deliveries with  
20 other methods besides the internet. In other words we're  
21 having, for example, kiosks installed at various locations,  
22 as a test, proof of concept type of thing, where you can do  
23 your registration without having to stand in line and  
24 actually interface with a person.

25           TEAM LEADER KELSO: Thanks, Bernard. And another,

1 I think, good example of a department that has been doing  
2 this, and we need to simply expand this throughout  
3 government, really is the Department of Corporations.

4 Commissioner Bonner, you may be interested that  
5 the website for that department is extraordinary now.  
6 Something like 95 to 98 percent of the required securities-  
7 related filings are now being done electronically.

8 Well, that's what we need to be doing, really,  
9 across the board, providing that level of convenient, cost-  
10 effective access to government services.

11 One of the next themes in the Information  
12 Technology Program relates to consolidation. And  
13 consolidation, you can tell, is a word that we use in a lot  
14 of different contexts throughout CPR.

15 In particular, here we're talking about  
16 consolidation of some of the information technology  
17 infrastructure of the State. Consolidation of the data  
18 setters, consolidation of other IT infrastructure.

19 This is another CPR initiative that I think is  
20 moving forward very quickly because its benefits, after  
21 prolonged discussion of the issue, are so obvious to so many  
22 people.

23 And I believe the Commissioners all have received  
24 a copy of an Executive Order that the Governor signed on  
25 August 24th, where he directs, with the goal of

1 substantially improving the management of our information  
2 technology, the Governor directs the consolidation of our  
3 two largest general purpose data centers, to consolidate  
4 their operations and activities to the maximum extent  
5 permitted by existing law, and to consolidate management  
6 authority over other information technology infrastructure  
7 to the fullest by applicable law, as well as directing me to  
8 prepare a proposal to the Governor, for later this year, to  
9 accomplish the formal consolidation of those entities.

10           This is one that I think improves our ability to  
11 manage our IT. It should reduce costs. It should improve  
12 security, if we do this correctly. It should improve our  
13 ability to be responsive to the business needs of the  
14 State's Executive Branch.

15           This is an initiative that really is underway  
16 across the country. In recent discussions I've had with  
17 other state CIOs, this is what, really, everybody in the  
18 public sector, now, is doing. Again, it's what the private  
19 sector largely started in the nineties, we're catching up.

20           Consolidation of other things should happen. We  
21 should be consolidating our e-mail services. So instead of  
22 having 175 different e-mail systems, we should have one e-  
23 mail system, essentially.

24           One of the interesting, sort of ironic things that  
25 we noted early on, the Governor, in establishing the CPR,

1 wanted to send an e-mail out, announcing it to all State  
2 workers. We discovered or, rather the Governor discovered,  
3 that he couldn't do that. We had to have a cascade of e-  
4 mails. We'd send it off to an agency secretary, who would  
5 hand it off to a department director, who would then be able  
6 to get it to employees.

7           It was an early sign, I think, to the Governor  
8 that we had to change a few things in the Executive Branch.

9           And, of course, consolidation of contracts about  
10 IT. This relates to procurement reform, as well. We buy  
11 lots of things in small chunks. That's not the most cost-  
12 effective way of purchasing information technology systems.

13           Bernard, do you have some other comments on  
14 consolidation?

15           TEAM LEADER SORIANO: No, I think you touched on  
16 all of the main points. I'll go into more detail about some  
17 of the recommendations specific to these, that came from the  
18 team. In particular, the contract consolidation, where I  
19 have some examples for you.

20           TEAM LEADER KELSO: Great, thank you.

21           Finally, on the IT program, one of the major, I  
22 think, sort of across-the-Executive Branch initiatives,  
23 would be the creation of what I'm calling back office  
24 systems. These would be Executive Branch-wide systems  
25 dealing with budgeting, financials and accounting, E-

1 procurement, personnel systems, asset management.

2 In essence, within the Executive Branch you do not  
3 really have, at the appropriate level, the information you  
4 need to manage. We just don't have those systems available.  
5 In area after area, if asked, we have to say we don't really  
6 know. If you were to ask me how much we spend on IT a year,  
7 I don't know, I can't tell you.

8 We need to start creating systems that permit us  
9 to manage. In order to manage, you have to have the right  
10 types of information. And I think you're going to be  
11 hearing a fair amount about that both from Bernard, and from  
12 Denzil.

13 In conclusion, what I would like to I think  
14 highlight, is that this agenda, and you, I think, are  
15 already aware of it, given just the volume of materials you  
16 have, this is a transformational change in the Executive  
17 Branch that CPR is proposing. This reaches to fundamental  
18 day-to-day operations.

19 In order to make that agenda for change work,  
20 we're going to have to have extraordinary leadership from  
21 all of the State's policymakers. Not just the Governor,  
22 this is going to involve cooperative efforts and hard work  
23 by all of the stakeholders to improve State operations.

24 And I think at this point I'll turn it over to  
25 Dr. Verardo to continue on performance-based management.

1           TEAM LEADER VERARDO: Good morning. Could I have  
2 the first slide, please?

3           California's current baseline budget system is  
4 broken. I don't think very many people disagree with that.  
5 There's a lot of current ownership in the current budget  
6 system, which makes it difficult to change over the years,  
7 but there is no doubt in most of our minds, and certainly  
8 from the budget team that worked on this with the  
9 Performance Review, that it's broken.

10          And I think James Madison's quote succinctly sums  
11 up where we are today, "a popular government, without  
12 popular information or the means of acquiring it, is but a  
13 prologue to a farce, or a tragedy, or perhaps both."

14          The next slide, please. Effective management is  
15 nearly impossible. The current budget, and I'll show you an  
16 example in a moment, shows funding streams, but not any  
17 results or impacts of what you're getting for your dollars.

18          Anybody looking at today's budget, anybody,  
19 including staff that is supposed to be looking at today's  
20 budget, could not tell you what a department does and  
21 certainly not what the results of their activities are  
22 producing for the taxpayers' dollars.

23          The current budget is opaque. Neither the public,  
24 nor anyone else, not the Administration, not the Legislature  
25 has any view that they can see on what people are doing with



1 their State government dollars.

2 Agency budgets are not tied to program performance  
3 and outdated programs are difficult, if not impossible, to  
4 identify.

5 And in fact, when I was with State Parks several  
6 years ago, we began a performance budget pilot, and we found  
7 a program, that we had been doing for several years, that  
8 was absolutely not only obsolete, it was wrong to do. We  
9 were going to open up a chain of bookstores and had no idea  
10 what the real costs were, what the benefits to the public  
11 were. All we thought was it would make money.

12 In the performance budget scenario, which I'll  
13 show in just a moment, those kinds of programs fall out.  
14 It's obvious they don't serve the public, provide unfair  
15 competition to private enterprise, and really do not produce  
16 the dollars that you think they're going to produce.

17 The CPR recommendations are to adopt a Performance  
18 Management System, which really is the unified use of  
19 strategic planning. And when we're talking about strategic  
20 planning in a Performance Management System, it's not the  
21 strategic planning that government is used to doing. You  
22 create one when an election occurs, and with the next  
23 election you pull that down, hire a consultant, who probably  
24 is selling a bit of snake oil in that there's no performance  
25 projects tied with the budget, and you put it on the shelf

1 again until the next election.

2           It does allow mid-level managers, because I was  
3 one for a decade or so, to hide and really not have to go  
4 along with what might be considered the flavor of the month  
5 for four years. There's really a problem, however, in two-  
6 term administrations, you really have to start to do  
7 something.

8           Strategic planning then, tied to performance  
9 measurement, makes it a very useful tool and provides an  
10 incredible framework for performance-based budgeting or  
11 budgeting for results, the results of the activities that  
12 government is producing.

13           With that comes performance review. On an annual  
14 basis you're seeing the results, the change in government,  
15 what can happen, good or bad, and performance review is  
16 allow by peering, both within the Administration, by the  
17 Legislature and, perhaps most importantly by the public, at  
18 any given time.

19           Another CPR recommendation is to adopt biennial  
20 budgeting. It is not a requirement of a performance  
21 management system, but biennial budgeting does allow this,  
22 it allows the budget dialogue, that occurs annually, to  
23 occur once every two years. Once that dialogue is settled,  
24 the intervening year can be used to analyze actual  
25 performance of government, or serve constituents better, or

1 allow the Administration to review what departments and  
2 agencies are doing, and eliminate under-performing programs,  
3 and enhance those programs that are meeting goals well.

4 This is a simple macro view of the performance  
5 management cycle, which begins with strategic planning,  
6 identifying performance measures, attaching that to dollars,  
7 budgeting for results, and then the performance review and  
8 plan revisions, if necessary.

9 Performance budgeting will tie program funding to  
10 demonstrating effectiveness and it's transparent. At any  
11 time you can peer in and see how an agency is doing on a  
12 performance budget, you can identify programmatic costs  
13 associated with that performance.

14 The fully integrated process helps California  
15 State government become creative, flexible and, most  
16 importantly, accountable. There is no current  
17 accountability with the budget. Yes, if you overspend at  
18 the end of the year, you know, hands will get slapped. The  
19 problem is you don't know you're going to overexpend at the  
20 end of the year.

21 You know, you read in the paper, every day,  
22 criticisms of governmental managers overexpending or making  
23 poor decisions. The problem is they don't have information  
24 by which to make good managerial decisions. The fault is  
25 really in the system, usually, and not so much with

1 individual performance.

2           The funds management also allows skills resources  
3 to be directed toward high priority, well-performing  
4 programs, that meets both the Governor's policy agenda, and  
5 those that the Legislature has passed, that the Governor has  
6 signed into law. It also allows easy identification of  
7 obsolete programs.

8           This is a display from the Department of Parks and  
9 Recreation current budget. For those of you facing the  
10 small screen, it may look blurry. For those of you facing  
11 the large screen, the information is blurry. So you're  
12 really seeing the same view.

13           If anybody can look at that and tell me what the  
14 programs in the Department of Parks and Recreation are,  
15 well, I've got a budget job for you. It gives you useless  
16 information, with the exception of some funding streams.

17           There are variety of models for performance-based  
18 budgeting, and they have this in common, data is used for  
19 decision making, it allows for prioritization of programs,  
20 and it allows focus to meet the Governor's policy and  
21 strategic goals.

22           I'm going to show you an example of this same  
23 Department of Parks and Recreation budget, if it were using  
24 one of the performance budget models.

25           In this case, the Department has a mission in one

1 of its core programs to be costed out, it is education  
2 interpretation, 22.5 million is just a number I put up to  
3 illustrate the point because, obviously, they're not doing a  
4 performance budget yet. The rest of the data you're looking  
5 at is true.

6           There's a desired outcome for education  
7 interpretation and they're spending their 22.5 million on  
8 that assumption. There's a series of performance measures  
9 associated with that core program, that chunk of their  
10 operation.

11           The next slide. Here's an example of one of the  
12 measures, participant hours in programs.

13           And if you could show the next slide, too, please?  
14 And nonstaff programs. So what you're getting for \$22.5  
15 million, part of what you're getting is interpretation and  
16 education to ten and a half million people.

17           California State Parks is the second largest  
18 educator of children, after the public school system. Is it  
19 worth \$22.5 million? We think so.

20           But not all information is good. That's the  
21 reason a performance budget allows some policy decisions.  
22 The visitor perception for opportunity is learning. The  
23 visitor satisfaction with those programs is declining, and  
24 has been consistently declining since 1996. The dialogue  
25 should be, with the performance budget versus the current

1 budget, what's going on and why is that occurring, and what  
2 is the Department going to do about it? That's the kind of  
3 dialogue.

4 Well, here is an answer. It's not the full  
5 answer. But you'll notice the pink line is that  
6 satisfaction and the blue line is parks attendance. Parks  
7 was able to answer, not in the first year, but in the  
8 intervening year, when we went back to investigate that, oh,  
9 there is obviously a correlation between having huge numbers  
10 of people on nature walks, or campfire shows, or not the  
11 ability to do it, and the declining satisfaction with those  
12 programs.

13 Performance budgeting does not make the management  
14 decision for you. Now, something has to be done, and that's  
15 a managerial decision. And that is performance-based  
16 management system and what a budget would look like versus  
17 the current system.

18 TEAM LEADER KELSO: Good. Thank you very much.

19 Let me make just a few more brief comments about  
20 procurement reform. I'll keep these relatively quick  
21 because I think I've, in general, covered this topic.

22 In essence, and this is something we've been  
23 working on for some time in the State, State purchasing  
24 remains uncoordinated between departments, largely  
25 uncoordinated. The result is it's very difficult for the

1 State to leverage its buying power. This is really the most  
2 expensive way to buy.

3 When we get contracts, we don't do nearly a good  
4 enough job of managing those contracts, and that's a skill  
5 that we need to develop and an activity we need to engage  
6 in.

7 We have tended to insulate ourselves from  
8 competition and competitive pressures. We should be willing  
9 to expose ourselves to those pressures.

10 When you look around the country, when public  
11 sector entities have done this, they do very well in  
12 competing. But the competitive pressure is good for the  
13 institution and the organization, it focuses you to keep  
14 focused on productivity and performance.

15 And at times bureaucratic inertia simply stops  
16 obvious solutions. What do we do about these things? We  
17 should, as I've said before, manage like a single business  
18 enterprise. We need to use technology to improve services,  
19 better manage the contracts, introduce management  
20 competition into the system, and apply common sense to  
21 common problems.

22 Just a few specifics. Realignment of procurement  
23 authority. We need to focus on the big strategic  
24 procurement issues in one place and have them focused there.  
25 There are big returns from doing that. There's a lot of

1 other procurement activity that's small dollar amount. Let  
2 those go forward. Departments should be able to do those on  
3 their own.

4 We need to take a look at alternative contract  
5 vehicles, contracts that give the State a better ability to  
6 share some of the risk of a contract, and achieving a  
7 contract, with a vendor. One of these is performance-based  
8 contracting.

9 Franchise Tax Board, I think, has been one of the  
10 leaders in performance-based contracting. Where, instead of  
11 trying to specify all of the particular technology  
12 requirements, you say to the vendor, here's the business  
13 result, that's what we want you to do. Deliver to us a  
14 system that achieves this business result. And then have  
15 appropriate contract remedies for failure to perform.

16 It's a better way of putting some of that risk  
17 back onto the contractor.

18 An E-procurement system. It really is time for us  
19 to move here. In addition to giving us information that we  
20 don't now have, about who's purchasing how much, this is a  
21 clear money saver.

22 When you look at the procurement process now, it's  
23 all paper-based. The cost per transaction can be reduced 60  
24 percent by moving to an appropriate E-procurement system.

25 The final two that I've mentioned, strategic



1 sourcing, this is, as I say, already underway, a fair amount  
2 of information is already available about it.

3 The sale of surplus property, I'm looking forward  
4 to, over the weekend, seeing what the take is on our first  
5 garage sale, but not our last I'm sure, our first garage  
6 sale.

7 When you look at all of the procurement issues,  
8 and we had 21 or so issues, 49 recommendations, it looks  
9 about like 2.6 billion in savings over five years. There's  
10 some real room for improvement there.

11 And I think at this point, I'd like to turn it  
12 back over to Dr. Verardo for some comments about our  
13 personnel management recommendations.

14 TEAM LEADER VERARDO: Well, the CPR really focused  
15 on three things, people, process, and money. And the people  
16 issues, and process issues, and dollar issues are really all  
17 interconnected.

18 Within California government we face a human  
19 capital crisis, 34 percent, or 70,000 State workers are at  
20 least 50 years of age and eligible to retire in five years.  
21 That's an enormous turnover.

22 Employees at least 50 years of age will be  
23 increased by 37,000 within the next five years, and by  
24 another 34,000 in ten years. And 68 percent of the State's  
25 current Civil Service work force are at least 40 years of

1 age.

2           And remember, State retirement systems allow for  
3 retirement at 50 years old and 55 years old. So when we're  
4 approaching these at least 40 years of age, you're not  
5 looking at the ability to train managers at a very high  
6 level, and have them around for a very long time, once they  
7 reach that part of their peak productivity.

8           Associated personnel management issues in the  
9 current personnel system is fragmented and divided, and I'll  
10 talk about that just a little bit more in a moment. And  
11 there is no systematic recruitment program to recruit the  
12 best and the brightest into the State service.

13           The State does not strategically invest in  
14 improving the knowledge, skills, and ability of workers.  
15 Training is done, for the most part, on a department-by-  
16 department basis. Some departments invest considerable  
17 amount into training and others invest almost nothing. And  
18 the resources available to those departments varies from  
19 department to department.

20           In addition, employee evaluations are really  
21 ineffective. There are not routine performance evaluations,  
22 there are not concrete performance goals. The evaluation  
23 process for State employees is broken.

24           How to solve the problem? We're making several  
25 recommendations. One is to fix the personnel system.

1 Consolidate and update the State's Civil Service  
2 classifications. There's some 6,000 classifications in  
3 State government. They are, in general, locked into a rigid  
4 system, whereby breaking out of that classification to do  
5 other work becomes extremely difficult.

6 In addition, by the way, out of those 6,000  
7 classifications there's a handful that do not have a single  
8 individual in it, they're classifications on the books that  
9 aren't used, but no one wants to get rid of them in case  
10 some day you'll need it.

11 Recruitment and selection. We need to establish a  
12 statewide recruitment program, plan for replacing employees  
13 with qualified, well-trained, and an educated work force.  
14 We need thoughtful and intelligent workers that are critical  
15 to the future of good government, and we need to give  
16 workers the skills to do the job. We're not doing that now.  
17 We hire someone, we put them in a position, and we destine  
18 them for failure with a lack of our improvement ability and  
19 good skills training.

20 Part of solving the problem is we need to focus on  
21 employee performance. There's no motivation, there's no  
22 results. We need a performance culture in state service.  
23 It's not a union issue, it's not a management issue, it's a  
24 joint issue.

25 We need to create a fair and efficient employee

1 discipline system. The current system is not fair to  
2 managers and it certainly isn't fair to the rank and file  
3 employees.

4 In addition, I want to say one thing, that there  
5 are 32,000 supervisors and managers in State government that  
6 are excluded from bargaining. In other words, the  
7 supervisors and managers do not have a voice in their  
8 compensation, or in the compensation of others that they  
9 supervise, and this leads to inefficient and inequitable  
10 compensation over time.

11 The Personnel Management Team looked at 19 issues,  
12 made 89 recommendations, and the savings would be  
13 approximately \$3.3 billion over five years.

14 Creating a customer-friendly government was  
15 another one of the looks that we need within --

16 COMMISSION CO-CHAIRPERSON KOZBERG: Denzil, we're  
17 going to have to --

18 TEAM LEADER VERARDO: Oh, I'm sorry.

19 COMMISSION CO-CHAIRPERSON KOZBERG: We're running  
20 out of time.

21 TEAM LEADER KELSO: Yes, thank you, Madam Chair.  
22 We have, I think, just three slides on information  
23 technology, and then we'll be happy to conclude, if that's  
24 your pleasure.

25 COMMISSION CO-CHAIRPERSON KOZBERG: Yes, please

1 continue.

2 TEAM LEADER SORIANO: Thank you, Madam Chair.

3 I'll quickly go through, being mindful of the time.

4 I'm Bernard Soriano. Good morning, I'm Bernard  
5 Soriano, I'm the Team Leader for the Technology Team, and  
6 I'll present some specific recommendations relative to  
7 technology.

8 First, a quick note about our team. We had 15  
9 members, four of them have MBAs, one with an MPA, two with  
10 masters of engineering, and one with a Ph.D., and all of  
11 them with a passion for making government more efficient.

12 Within technology, in State government, the  
13 predominant symbol of service delivery within State  
14 government is, as I've mentioned before, long lines at  
15 multiple windows, and over-the-counter paper-based  
16 transactions.

17 There are not enterprise-wide or statewide systems  
18 for budgeting, accounting, human resources, procurement, and  
19 the fragmented systems that we do have are outdated and they  
20 consume a large share of technical and financial capacity  
21 just to keep them going.

22 There's no strategic plan for statewide IT and  
23 that results in duplicative capacity, and little or no  
24 integration across systems or across agencies. Each one of  
25 these deficiencies were addressed by the team.

1           The next slide, please. For example, for  
2   inconvenient paper-based service delivery we have a number  
3   of recommendations, I'll focus on two of them. In specific,  
4   the redesign of the State portal and funding strategies for  
5   the State portal. They're numbered Statewide Operations 8  
6   and 11, respectively.

7           In 2000, in the year 2000 the statewide portal was  
8   implemented to improve services, increase efficiencies, and  
9   reduce costs. For a number of reasons those goals were not  
10  achieved. Some of those reasons include lack of funding,  
11  lack of adequate governance structure. In other words, who  
12  owns it, who maintains it, how is it paid for.

13           A limited marketing. Poor adoption rates. Poor  
14  adoption rates in terms of departments and agencies  
15  utilizing the portal in an efficient manner.

16           The search engine technology was inadequate and  
17  there was a lack of trained personnel in the technology that  
18  was used, as well as a lack of shared applications, a lack  
19  of applications that could be used by various departments on  
20  the portal.

21           The Panel is recommending that the portal be  
22  redesigned in phases. The first phase being a reduction or  
23  resolution of current problems, updating the look and feel,  
24  rebranding the portal, and replacing the search engine with  
25  one that is more robust.

1           Also in the first phase is the preparation of a  
2 three-year plan to provide a platform for all State agencies  
3 to migrate E-government services upon.

4           The second phase would be the actual adoption of  
5 new statewide solutions.

6           Another recommendation that we came forth with was  
7 funding strategies for this portal. The Panel is  
8 recommending that authority be established to allow  
9 advertising on the State portal. In addition, the Panel or  
10 the Team has recognized different funding strategies that  
11 are available and encourages the use of them.

12           For example, the use of not just advertising  
13 space, but the use of revenue based on a click through  
14 system, whereby there would be an ad, and as someone would  
15 click on the ad, we would collect a portion of the revenue.

16           COMMISSION CO-CHAIRPERSON KOZBERG: Bernard, could  
17 we get you to summarize?

18           TEAM LEADER SORIANO: Sure.

19           COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

20           TEAM LEADER SORIANO: The recommendations, as a  
21 whole, were mainly focused on statewide operations. Again,  
22 getting away from systems and processes that were geared  
23 mainly to agencies and departments and to look at the  
24 statewide operation.

25           Overall, the Technology Team had a total of 32

1 issues. Some of the other teams had technology issues as  
2 well, but the Team, itself, had 32, and we had 104  
3 recommendations. The total amount of savings over five  
4 years, that we estimated, would be about \$514 million.  
5 Thank you.

6 TEAM LEADER KELSO: Thank you, Bernard.

7 Madam Chair.

8 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you,  
9 very much, for an excellent presentation.

10 Are there questions, knowing that we will be  
11 having panels devoted to these different topics?

12 Steve Olsen, then J.J.

13 COMMISSIONER OLSEN: I'm having an experience of  
14 overwhelming deja vu with your testimony. January 1993,  
15 Governor Wilson comes out with the performance-based  
16 budgeting piloting projects for four State departments. We  
17 could just go down the list here, all of these are -- I  
18 mean, they're cast in a new way, but none of the issues are  
19 fundamentally new.

20 What's different about this, what are the factors  
21 that you identified that are barriers to pursuing these  
22 types of implementations, and what's different now?

23 TEAM LEADER VERARDO: One of the main failures,  
24 two failures of the previous performance-based budget pilot  
25 was, one, there was not uniform rollout. Each individual



1 department, six, was to invent their own system. So four  
2 fell out of the pilot because the system they picked,  
3 frankly, didn't work, leaving two in the pilot program.

4 And the second one was that really it didn't have  
5 the strong backing of the Legislature or the Administration  
6 after the years that went by that it took to perfect the  
7 system.

8 What we have today, that will make a difference,  
9 is we really have the expertise, we've looked at other  
10 states that work, and we know what failed in the previous  
11 pilots, and we can roll out a standard model of performance  
12 budgeting statewide, which should really enhance its  
13 success.

14 CO-DIRECTOR GUTIERREZ: Madam Chairman,  
15 Mr. Chairman, let me add a couple thoughts. Steve, you and  
16 I went through that. Collectively, we have over 50 years in  
17 State government and we've worked on the same issues over  
18 most of those years.

19 There's a difference in today's government, that I  
20 perceive, that I did not see in my career, and that is we  
21 have a Governor who the people believe is very action  
22 oriented. The people believe this Governor is a reformer.

23 The issues we talked about today, the very  
24 methodology that we use for CPR is we didn't invent new  
25 ideas, we didn't go out and look for new ways of doing

1 things. There has been a great deal of investment done over  
2 time in identifying these issues, and they're darn good.

3 They didn't get implemented because the  
4 bureaucracy resisted them or the political will wasn't there  
5 to implement them.

6 Performance-based budgeting, you and I have gone  
7 through performance-based budgeting. We've gone through all  
8 kinds of different initials involved in budgeting. But what  
9 is easiest for the Department of Finance, and what is  
10 easiest for the Legislature is incremental budgeting, where  
11 they do baseline budgeting, and the whole systems are set up  
12 to do that, the mechanics are in place. And they say, so  
13 how much more should we incrementally add this year, to last  
14 year's budget, without having a single idea of what was  
15 accomplished.

16 You and I went through a process where we tried to  
17 tie performance budgeting to the prison system. You  
18 remember that, where we were trying to count the number of  
19 fillings that went into an individual's head. It was too  
20 big, it was too burdensome, it didn't work. We tried zero-  
21 based budgeting.

22 I'm sorry, we're taking too much time. That  
23 didn't work, either. This is an issue that has to do with  
24 leadership, it has to do what we need to do to get  
25 government back on track.

1 I think Clark spoke to it, as he summarized his  
2 opening remarks. It's not going to be easy, there's going  
3 to be tremendous resistance, and we'll see what happens.

4 I'm sorry.

5 COMMISSION CO-CHAIRPERSON KOZBERG: It was a very  
6 good answer, thank you.

7 J.J.

8 COMMISSIONER JELINCIC: As the President of the  
9 State Employees Association, you can imagine that I've got a  
10 whole bunch of questions, but I'm going to try and move this  
11 along.

12 One of the sections you did was on, I forget what  
13 you called it, alternative service delivery. Yet, there was  
14 no discussion in that section about insourcing. There was  
15 no discussion about the problems that others have had with  
16 contracting out.

17 A third of the references were to the Reason  
18 Foundation, which has a very clear goal. I've got a whole  
19 bunch of information that I'd be happy to share with you on  
20 sources.

21 So the first question is why wasn't that addressed  
22 in this report?

23 COMMISSION CO-CHAIRPERSON KOZBERG: Do we have  
24 someone who'd like to respond?

25 CO-DIRECTOR GUTIERREZ: You know, I'll be happy

1 to, J.J. I'm just terribly sorry, I missed the point of the  
2 question.

3 COMMISSIONER JELINCIC: The point of the question  
4 is why has there been no discussion of insourcing in this  
5 report?

6 CO-DIRECTOR GUTIERREZ: Help me with what  
7 insourcing is?

8 COMMISSIONER JELINCIC: Taking services that are  
9 currently done by outside contractors and bringing it in-  
10 house.

11 CO-DIRECTOR GUTIERREZ: Oh, insourcing?

12 COMMISSIONER JELINCIC: Yes.

13 CO-DIRECTOR GUTIERREZ: Thank you very much. And  
14 let me be careful how I phrase this. The teams were asked  
15 to look at methodologies that, in their mind, improved the  
16 quality of the delivery of service.

17 It could very well be that in the process they  
18 just didn't focus on that issue.

19 I know that we had no policy discussions on the  
20 notion of trying to determine the incremental cost of  
21 contracting out versus having a State employee do that. We  
22 did not engage in that, J.J.

23 And I think I need to make this point, too, we  
24 were given guidance from Paul Miner, who was our liaison to  
25 the Governor's office, and he laid down two rules, that I

1 don't believe we violated.

2           Number one, he says, "I don't want you going off  
3 and hunting for positions to abolish. This is not about  
4 abolishing State positions, it's about making government  
5 more efficient."

6           And that was rule number one. Rule number two is  
7 "this is not about contracting out, do not focus on  
8 contracting out as a strategy that we apply across all  
9 lines. If the notion of contracting out comes up during the  
10 course of your work, then go ahead and have that be a  
11 discreet decision, tied to that particular recommendation.  
12 Do not begin to look at those two issues because they have  
13 tremendous political consequences and they'll distract from  
14 the discussion."

15           We didn't do those two things.

16           COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

17           TEAM LEADER KELSO: And just to add very briefly  
18 to that, when you look through all of the IT  
19 recommendations, as just an example, on almost every one of  
20 them there could have been, well, this should be outsourced,  
21 we should contract out for this. That really, as Chon says,  
22 wasn't the focus. The focus was really very much on how do  
23 you simply improve services and focus on results. So it  
24 really just wasn't the focus of what we were looking at.

25           COMMISSION CO-CHAIRPERSON KOZBERG: I have the

1 following people that want to ask questions, Dale, Jay, and  
2 Peter.

3 COMMISSIONER BONNER: Okay, thank you.

4 This first question is for Mr. Kelso, and it's kind of a  
5 broad question, calling for a general response, as we  
6 listened to the testimony today.

7 Thinking about all the various technology-related  
8 findings and recommendations, can you very generally  
9 characterize how many are those which can be done through  
10 the administrative process and through vehicles, similar to  
11 the Governor's Executive Order, on the one hand versus those  
12 that may require some fundamental reform, themselves?

13 In other words, some appear to be steps that can  
14 be taken now and some appear to be steps that obviously  
15 would be pursued through some protracted reform process.

16 So just generally characterize how many fall in  
17 which category?

18 TEAM LEADER KELSO: Well, I don't know that very  
19 many of them fall into a protracted reform category.  
20 Certainly, there's probably, I would say, maybe 15 percent,  
21 20 percent that fall into the "we can do these right now,"  
22 many of them we're already moving on right now without,  
23 really, any particular need for a statutory change or even  
24 for much in the way of budget augmentation.

25 There's a big percentage of the IT recommendations

1 that have some type of budget impact, where there will have  
2 to be discussions not only within the Administration, but  
3 then with the Legislature, about how you finance those sort  
4 of reforms.

5 And there's some that require real statutory  
6 reform, for example in governance structures for IT within  
7 the State, some of the reorganization.

8 But I would say that most of them are ones that  
9 can be done by departments, many through sort of the  
10 existing IT project process and through the budget process.

11 COMMISSIONER BONNER: Okay, and the reason I ask  
12 this is because generally, again just briefly, that much of  
13 the reform that was done in this area in the early to mid-  
14 nineties either was intended to, or at least had the effect  
15 of dramatically slowing down the IT procurement and reform  
16 process.

17 So I just will be interested to know, having built  
18 a system that's almost, by design, to be very slow and  
19 treacherous, how we now can go forward, and I would hope to  
20 find a good answer to that. But that will be one thing that  
21 I'll be looking for some thoughts on as we go forward.

22 TEAM LEADER KELSO: Sure.

23 COMMISSIONER BONNER: One last question, on the  
24 performance-based budgeting, for someone who's not a  
25 budgeting expert, I'm wondering if you could reconcile two,

1 well, I guess I have some company here, if you could  
2 reconcile a couple of concepts. You know, the performance-  
3 based budgeting, when I hear a lot of discussion of that,  
4 you hear about, I think you mentioned, tying funding to  
5 performance.

6           And you know, on the one hand that kind of  
7 suggests that you could have a very critical program, that  
8 has lots of public value, but it may be defunded because  
9 it's not performing well. And, of course, that would seem  
10 to me to be somewhat incongruent with our overall  
11 objectives.

12           And then the other theme is budgeting for results,  
13 which on the other hand suggests that, well, you may have a  
14 great program and that somehow it's underfunded, and maybe  
15 that's why it's not performing well, and so there may be  
16 more resources allocated.

17           But if you could just reconcile those two general  
18 concepts for me?

19           TEAM LEADER VERARDO: Sure. Underperforming does  
20 not necessarily lead to budget reduction. An  
21 underperforming program may well lack the resources to  
22 perform well, and that has to be the budgetary dialogue that  
23 takes place when the Governor's budget is constructed, and  
24 the legislative dialogue between the Governor and the  
25 Legislature.



1           If it's underperforming and it's a managerial  
2 problem, that's a different issue. So I don't want to  
3 address that, that's one of replacement and it gets to a  
4 human level.

5           But organizational performance is simply asking  
6 the question, when you see the metrics, why is this  
7 underperforming, and having the answers to know why it's  
8 underperforming as part of the budgetary dialogue.

9           So some underperforming governmental programs  
10 would be abolished because they're not necessary anymore,  
11 and others would be enhanced because they are necessary.

12          Let me give a specific example on the federal  
13 level, because they are under a performance budgeting under  
14 the Government Performance and Results Act.

15          Within the Health and Human Services Agency  
16 there's the Toxic Substances Control. They have a program  
17 on lead abatement. You can see, over the years, that lead  
18 abatement is becoming a less important program on the  
19 metrics. Why? Because lead is getting reduced out of the  
20 environment, there's no more lead-based paints and that kind  
21 of thing. You can see that pretty soon, as soon as that  
22 program has reached its designated goal, that there's no  
23 reason for a whole department to deal with lead abatement.

24          That's the kind of organizational underperformance  
25 or overperformance we're talking about.

1 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.  
2 Jay, then Peter, then Pat, then J.J.

3 COMMISSIONER BENTON: Yes, thank you, Madam  
4 Chairman.

5 Just a comment. As I was preparing for today's  
6 hearing, I was reflecting on the passion that we heard last  
7 week, dealing with health and human service issues,  
8 wondering if any of that would come through today in  
9 something arguably dry, like IT and E-procurement.

10 I congratulate all of you for demonstrating  
11 passion in making California government work better, and I  
12 thank you for that.

13 But that led me to thinking of a couple things  
14 that will lead to my question. A lot, if not much of what  
15 you've described, are things, it occurs to me, that could  
16 have been done already, without a Commission and without  
17 hearings. I mean, E-procurement is pretty routine, it's  
18 just deciding let's do it and put systems in place.

19 Apparently, it's been tried before, from comments  
20 Steve made and some of you responded to, Chon shared that  
21 with me.

22 So it leads to this, the word "culture," private  
23 or public sector. You can put all the best plans in place,  
24 and the Governor can say we're doing this, but how do you  
25 deal with culture? And it seems to me, to effect these

1 changes, cultural changes are required.

2 Did you give any thought to that and do you have  
3 any comments as to how that can be handled? To me, if you  
4 don't do that, all of this won't happen. So how do you deal  
5 with the cultural issue?

6 TEAM LEADER KELSO: Well, I can start with some  
7 observations. I agree with you, first, that we're talking  
8 about a cultural transformation, not just an operational  
9 transformation, and you need to have both in order for this  
10 type of an organizational change to really take hold and be  
11 effective.

12 I think there are proven strategies for doing  
13 that. We're not the first to go through this sort of an  
14 exercise, in the public or the private sector.

15 The first thing that it requires is sustained  
16 leadership. It's got to come from the top. There's got to  
17 be a long-term commitment to making government performance-  
18 oriented. And then you have to build in place systems that  
19 will reinforce that.

20 You have to build in place a budget system that  
21 reinforces it. A human relations system that will reinforce  
22 that. A strategic planning system that reinforces it. IT  
23 systems that reinforce it. You have to build an integrated  
24 approach so that you are constantly getting that message  
25 over, and over, and over again.

1           It doesn't happen quickly. It's going to require,  
2 as I say, a sustained and I think resource-intensive effort  
3 to make that transformation.

4           But I think we also know, from looking at what  
5 others have done before us, there's a huge payoff if you can  
6 do this successfully. If you can do this, you really can  
7 completely reinvent an organization and make it do better,  
8 at less costwise. We can meet those goals.

9           PANEL MEMBER VERARDO: There's one other item.  
10 Cultural shift in government does not occur unless there's a  
11 crisis. That's just an historical perspective.

12           We have an enormous crisis now, whether it's human  
13 capital or investment, and that creates a degree of  
14 opportunity for cultural shift, it really does. In good  
15 times there's no motivation to change the culture or  
16 motivation to improve.

17           CO-DIRECTOR GUTIERREZ: Let me add, at least, my  
18 number one priority would be accountability. As you look at  
19 government, accountability's so diffused that it's hard to  
20 hold one person responsible for failing to deliver on E-  
21 procurement. It's hard to hold one person responsible for  
22 being able to deliver -- to fail to deliver on other  
23 statewide issues of that nature. We thought a lot about  
24 that.

25           We thought that it was more than culture. We

1 thought that government -- well, maybe it's just another way  
2 of looking at the point you're making, we found that  
3 government was process focused, it was not outcome focused.

4 Is it easier to do it this way? If it is, then  
5 maybe things will change. But if it requires more effort,  
6 more thinking, more focus on outcome, then it's not likely  
7 to exist.

8 So to some extent, when you look at the OMB, the  
9 cost of the OMB, it's really modeled on the notion of the  
10 private sector, of the chief operating officer. Someone  
11 that the CEO or the Board can turn to and say, so what  
12 happened?

13 And on the point of accountability, we've been  
14 just extraordinarily lucky at the DMV in the last ten  
15 months. We've gotten wait times way down, we've got the VLF  
16 issue resolved, and we've gotten some praise in the press.  
17 And it was really clear, the Governor set two objectives, I  
18 want these two things done.

19 So leadership set the direction, it was our  
20 responsibility to deliver against it.

21 I've been a State employee for 33 years. I'm a  
22 colleague, with 215,000 of us. We come to work wanting to  
23 do good things and what we need is clear leadership of  
24 what's expected of us.

25 COMMISSION CO-CHAIRPERSON KOZBERG: Bernard, did

1 you want to add something, otherwise we'll go to the next  
2 question.

3 TEAM LEADER SORIANO: No, I just wanted to echo  
4 what Clark and Chon had already said, in that leadership,  
5 and the systems in place to reinforce that leadership, are  
6 what will change culture.

7 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.  
8 Pete Taylor.

9 COMMISSIONER TAYLOR: Thank you, Madam Chair.

10 A question on the recommendation pertaining to  
11 biennial budgeting and the difficulty in making mid-course  
12 corrections in budgeting.

13 One of the things that the credit agencies have  
14 just hammered California on is the fact that in our current  
15 system of annual budgeting, it's very difficult to make mid-  
16 course corrections should you, midway through a fiscal year,  
17 find that revenues are coming below that which were  
18 projected, or expenditures above that which were projected.

19 Would a biennial budgeting process make that more  
20 difficult?

21 And number two, I didn't see any comments in this.  
22 Mind you, it was very late when I was reading it, so I may  
23 have missed it.

24 But where the other recommendations might be  
25 pertaining how do you make mid-year or mid-course

1 corrections should you, in fact, go to a biennial process?

2 TEAM LEADER VERARDO: Yes, course corrections are  
3 difficult. Biennial process makes it much easier, as long  
4 as built into the performance budget system is flexibility.  
5 We're talking about an extreme amount of accountability.  
6 But there needs to be flexibility in the appropriation  
7 process, i.e., the current appropriation process locks  
8 managers, and departments, and the Administration into some  
9 very fixed programmatic costs.

10 Under a performance budget, if there's a, let me  
11 use over-performing program, or a crisis with the biennial  
12 budget, you're able to shift the dollars from education  
13 interpretation to public safety. In other words, try to fix  
14 the gaps outside of the normal silos.

15 But again, with that comes a tremendous degree of  
16 accountability. That accountability is to the public. If  
17 you're fixing this, then you better not harm this. But the  
18 metrics can tell you that.

19 So I say, with a performance budget mid-course  
20 corrections are much easier, and the accountability comes  
21 then, and the dialogue in the budget year.

22 COMMISSION CO-CHAIRPERSON KOZBERG: Pat.

23 COMMISSIONER DANDO: Thank you. Let me say, first  
24 of all, that your information today was a real education. I  
25 have to say it was a bit frightening, but a real education.

1 I appreciate it.

2 Just a couple of comments and then two questions.

3 One, I think that all governments tend to get very good at  
4 the process and sometimes we stay so focused on the process  
5 we forget what the expectation is at the end. We get real  
6 good at telling people how many forms they have to fill out,  
7 and which line to stand in, and sometimes we're really proud  
8 that we can get you through the process within a certain  
9 amount of time, but we forget what that outcome is. So I'm  
10 glad to hear the direction that you are looking to try to  
11 move from the process to the end result.

12 And having said that, I think it's also refreshing  
13 that you're looking at finding out what the cost of the  
14 State programs are, how they benefit the community and the  
15 taxpayer, and how you've improved the quality. So I think  
16 you're going in the right direction.

17 My two questions are, one, just to follow up on  
18 the biennial budgeting, are there states that you can give  
19 as examples, that now do that, that might be a comparison to  
20 California?

21 And the second question is with regard to  
22 competition with the State, kind of goes to what J.J. was  
23 saying. Do you have examples of states that have used  
24 managed competition, which would be allowing the employees  
25 to compete with the private sector and, whoever comes up



1 with, again, the best price, the best quality, best service  
2 gets the contract?

3 TEAM LEADER VERARDO: First of all, a preface on  
4 what you mentioned about process, because one of the CPR  
5 recommendations, from the Budget Team, is also business  
6 process review. So I didn't mention that because it's a  
7 subset of what we're talking about. But there would be  
8 business process review to make all of the State's processes  
9 much simpler.

10 Secondly, on biennial budgeting, the State of  
11 Texas has a biennial budget. I can get you the exact  
12 number, but I believe it's 19 states.

13 We looked at Texas fairly closely because of the  
14 process and dialogue that takes place within the government.  
15 And also within Arizona, that had both a performance budget  
16 and a biennial budget, and the dialogue that took place.

17 What we found was the dialogue is much enhanced  
18 with the biennial budget, but there is no California. And  
19 so I would be remiss in trying to compare any state, even  
20 the next biggest one, with California. It's a different  
21 political environment, it's a different social environment,  
22 it's a different framework for the budget system. But we do  
23 feel that it has tremendous potential and should be  
24 investigated further.

25 The second question was? Did I answer them both?

1           COMMISSIONER DANDO: In managed competition, are  
2 there any states that do that?

3           TEAM LEADER KELSO: Yeah, in fact, I think if you  
4 pull out your books, that I know you all are carrying with  
5 you, you'll discover in the issue paper S074, dealing with  
6 alternative service, delivery techniques, they cite  
7 specifically programs in the federal government, the Federal  
8 Activities Inventory Reform Act, as well as citations to  
9 public administration review articles that have this  
10 experience in other jurisdictions.

11           And you know, just as a point of information, for  
12 example, at the federal level they say government agencies,  
13 under this particular Act, typically win half of all the  
14 competitions. And it appears to be from this description.  
15 I don't know the FAIRA process well. It appears to be a  
16 structuring process.

17           COMMISSIONER DANDO: Excuse me, I didn't see  
18 states listed. Are there states that are listed, did I just  
19 overlook them?

20           TEAM LEADER KELSO: What we have in here are  
21 examples, for example, Charlotte, North Carolina,  
22 Indianapolis, Phoenix, Bethesda. Texas has a Council on  
23 Competitive Government, so they're listed in here, as well.

24           COMMISSIONER DANDO: So Texas is the only state,  
25 though. I saw that and I know there are a lot of cities

1 that do it, but I didn't know if there was another state.

2 COMMISSION CO-CHAIRPERSON KOZBERG: Well, Pat, we  
3 can make sure we've got the right answer for you.

4 COMMISSIONER DANDO: If you get that write-up,  
5 that would be helpful.

6 TEAM LEADER KELSO: Good.

7 COMMISSION CO-CHAIRPERSON KOZBERG: J.J. and then  
8 Bill.

9 COMMISSIONER JELINCIC: Three quick observations.  
10 Part of the aging of the work force might have something to  
11 do with the hiring freezes we've been going through.

12 You've projected a number of savings by reducing  
13 employees, because we're going to be more efficient or  
14 actually slowing the growth.

15 I've reviewed your table and you've also assumed  
16 that there will be no increase in employee compensation, per  
17 employee, for the next seven years. I doubt that that's a  
18 very valid assumption.

19 During your presentation you mentioned discipline  
20 three times as an important issue. In the report, you  
21 compare it to Georgia, which I would remind you is not a  
22 civil service state, they eliminated the civil service there  
23 a few years ago. So those are the observations.

24 The questions actually go to performance  
25 measurement. I understand the concept. How do we

1 incorporate not just the number of widgets, but the quality  
2 of widgets? How do we incorporate those things that  
3 government provides, the people don't particularly like?

4 It was more important when I was younger, but I  
5 really hated traffic courts. Now that I'm older and more  
6 responsible, they don't bother me as much.

7 (Laughter.)

8 COMMISSIONER JELINCIC: But we have other, you  
9 know, we don't particularly like the tax collector.

10 And how do you calculate a performance measurement  
11 for something like teaching prisoners, who are not going to  
12 be out of prison for ten years, and so we won't see the  
13 outcomes for ten years, and how do you incorporate those?

14 TEAM LEADER VERARDO: In the next hour I'll answer  
15 your question as accurately as possible. No. Sorry.

16 Those are excellent questions. The idea of  
17 focusing on a performance management system is that you are  
18 focusing on the result and the outcome. Whether it's the  
19 prison system, and they do have an outcome. Once the core  
20 programs are identified, measurement systems are set up, and  
21 then the outcomes and results of those programs can be  
22 effectively looked at and the dialogue should be around  
23 that. Not necessarily numbers of people incarcerated, but  
24 what is the job of the prison and how accurately are they  
25 doing it.

1           Performance budget systems are focusing on the  
2 results, not just the number of output, but what is the  
3 customer satisfaction? What is the administration's  
4 satisfaction with it? What are the surveys showing? Those  
5 results and the end results are the critical piece of the  
6 performance management system, not sheer output.

7           Now, the two slides I showed, showed output,  
8 because they were the easiest ones to deal with. But the  
9 last slide was customer satisfaction, and that's critically,  
10 critically important.

11           Also performance, you notice I'm talking about  
12 organizational performance, but that cascades down to every  
13 piece of the organization, where every employee has the set  
14 of measures that they're looking at, that they need to  
15 achieve, or that they're monitoring for the rest of  
16 government. So that when the system is together, as a  
17 whole, you have an accurate, detailed picture of what is  
18 happening at government at every level.

19           CO-DIRECTOR GUTIERREZ: Let me just add two  
20 sentences to that. Denzil, as I said earlier, is an expert  
21 on performance-based budgeting, and he knows all the nuances  
22 of them. He is equally mindful of the broad public policy  
23 dialogue that occurs as you're trying to put a budget  
24 together at the last minute.

25           And so we were reflecting on the fact that at one

1 time the Correctional system had a training and education  
2 component to it, and the Youth Authority had an extensive  
3 program, as did CDC.

4 But the will of the people was that the  
5 institutions be focused more on punishment, rather than  
6 treatment and rehabilitation.

7 And so while it's really important to have those  
8 answers that are very much detailed, oftentimes they're  
9 superseded or eclipsed by the broader public policy.

10 COMMISSION CO-CHAIRPERSON KOZBERG: The last  
11 question goes to Bill Hauck.

12 COMMISSION CO-CHAIRPERSON HAUCK: And my question,  
13 J.J., is for you, actually. It's a serious question. I  
14 mean, I think we all understand that what's being proposed  
15 here is a fundamental transformation of what may be the  
16 existing culture in State service today.

17 You lead the State Employees Association. Do you  
18 believe that your membership wants to focus on outcomes and  
19 results or not? Do you believe that they are proud of how  
20 they perform, and by performing I mean not just getting  
21 through the process?

22 Because if that's not the case, all of these  
23 suggestions are going to fail in one way or another. I get  
24 the feeling, from you, that you have lots of trepidation  
25 about the recommendations and I just wonder why?

1           COMMISSIONER JELINCIC: Well, you asked two  
2 questions and let me try and answer them sequentially. The  
3 people I represent, and the public employees in general  
4 really care about providing good service.

5           When I put on my union steward hat they drive me  
6 nuts. They work through their breaks, they come in before  
7 hours, and work off the clock, they work after the clock.  
8 Because if I don't do this, you know, Sally doesn't get her  
9 unemployment check. And that's true.

10          And what they also do is provide the system the  
11 excuse not to provide the resources to do the service right.

12          They do care about public service. They wouldn't  
13 put up with the -- you know, there was a reference made  
14 earlier that we should rebuild a respect for public service.  
15 For years, as a society, we have said if you work for the  
16 government, you're no damn good, or you'll be over in the  
17 private sector. That has come from elected leadership. You  
18 know, our bosses for years have said my work force is no  
19 good.

20          Quite frankly, the State's work force is better  
21 than it deserves, given its treatment, failure to deal with  
22 some of the salary issues that they acknowledge.

23          Yes, they want to do good service.

24          Now, part of the trepidation, quite frankly, is  
25 things like I'm a teacher -- actually, I'm an investment

1 officer. But I mean, a teacher in a prison system, really,  
2 you don't see the results of that until that prisoner gets  
3 out and functions in society or fails to function.

4 So there's a real trepidation on being held  
5 accountable for those things you don't have any control  
6 over.

7 COMMISSION CO-CHAIRPERSON HAUCK: A teacher is,  
8 let's take that teacher. If that teacher -- there are ways  
9 to determine whether the teacher is having some success.  
10 One of the great problems we have with our prison system,  
11 and with inmates, is that they are illiterate, in effect.  
12 So if you have a teacher trying to bring the literacy of an  
13 inmate up to some basic level, after a year or two you're  
14 going to know whether you've achieved that, regardless of  
15 whether the inmate has another 10 or 20 years to serve in  
16 prison.

17 I mean, it seems to me, at least, that there are  
18 measures that can be used to determine whether you're  
19 succeeding, and that the teacher would want to have those  
20 measures.

21 COMMISSIONER JELINCIC: There are some interim  
22 measurements. But if we're really going to focus not just  
23 on the widgets, but on the outcomes, then we've got to look  
24 at it a little longer.

25 I'm an investment officer at CalPERS. You know,



1 clearly, I'm not in it for the money since it's not  
2 competitive. But we spend, roughly, half of the investment  
3 office budget on outside managers, who manage a quarter of  
4 the assets.

5 We spend half of the internal budget monitoring  
6 the outside managers, so we're really spending three-  
7 quarters of the budget on outside managers.

8 Statistically, over a ten-year period, you can't  
9 tell the difference between those two groups, and yet we  
10 continue to hire more and more managers, and don't deal with  
11 the salary issue that makes it hard to hire staff.

12 So there's a whole history that brings some  
13 trepidation to it.

14 But I will tell you, there is probably no group  
15 more dedicated to public service than public employees.

16 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you. I  
17 want to thank the Panel, you've brought a lot of excitement  
18 and stimulation, and we're very, very grateful for all that  
19 you do.

20 And now, we're going to move directly into the  
21 Performance-Based Management, Personnel and Training Panel.  
22 And we are running behind.

23 I understand we have a timekeeper, who will let  
24 you know when you have come up against your time limit.  
25 We've asked you to each speak five minutes or no more than

1 five minutes.

2 And also, if you could keep your remarks focused  
3 on what you agree with in the CPR report, what you don't  
4 agree with, and what you might do differently, in other  
5 words, an alternative suggestion.

6 We're going to take people in the following order,  
7 we're going to start with Gerry Goldberg, and then Larry  
8 Stone, Kelly Montgomery, Jim Hard, Tom Hinton, and Carol  
9 Chesbrough, and if you could do self-introductions. And it  
10 looks like we may be missing one of the panelists.

11 All right, Gerry.

12 PANEL MEMBER GOLDBERG: Good morning, my name is  
13 Gerry Goldberg, I'm the Executive Officer of the Franchise  
14 Tax Board, or as my staff says, I'm the current Executive  
15 Officer of the Franchise Tax Board, having only been there  
16 for 25 years.

17 I want to thank the Commission for this  
18 opportunity to --

19 COMMISSION CO-CHAIRPERSON KOZBERG: Gerry, you're  
20 going to have to speak into the mike.

21 PANEL MEMBER GOLDBERG: Oh, I'm sorry.

22 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

23 PANEL MEMBER GOLDBERG: I want to thank the  
24 Commission for this opportunity to comment. I could barely  
25 contain myself as I sat and listened to the first panel, I

1 wanted to comment on much of what they said and, of course,  
2 I wanted to respond to many of your questions.

3 But this morning my remarks will be confined to  
4 talking about leadership training and retention. And I want  
5 to say I strongly support the CPR focus on leadership  
6 training to develop the next generation of executives and  
7 managers.

8 I think the idea of establishing a task force to  
9 develop a strategic plan for education and training is just  
10 terrific, I think long overdue.

11 I would hope that such a strategic plan would, in  
12 fact, call for the reestablishment of the California  
13 Leadership Institute, and I have to make a comment here that  
14 the Leadership Institute was largely formed as a result of  
15 the hard work of your Co-Chair, Joanne Kozberg.

16 But the Leadership Institute is very important  
17 because it provides a broad view of government. And you may  
18 say, well, what's important about a broad view of  
19 government?

20 Well, I have to share with you, when I arrived at  
21 the Franchise Tax Board roughly 25 years ago, and I have to  
22 say I was about 17 years old, the average tenure of my  
23 senior management staff, with the Franchise Tax Board, was  
24 35 years with the Franchise Tax Board. Of course, some of  
25 them had additional State service, but just 35 years with

1 the Franchise Tax Board.

2           Needless to say, they had a very silo perspective  
3 of State government, and I think that is a big concern and  
4 it needs to be addressed as we move forward.

5           And so providing a broad perspective of government  
6 and government issues I think is very important as we train  
7 executives.

8           That's not to say that we can ignore issues like  
9 procurement, and human resources, customer service,  
10 budgeting, planning, IT, all of these are necessary arrows  
11 in the quiver of a good, top executive. They don't need to  
12 know the detail, but they certainly need to know some of the  
13 pitfalls.

14           I, myself, have found that I am continually  
15 learning. We're in the midst of a huge procurement today,  
16 involving child support automation, and I am finding that I  
17 am just fascinated, and learning daily, as I said, with  
18 regard to the pitfalls of procurement and the right and  
19 wrongs of procurement.

20           And our new executives, our new managers need to  
21 have this experience, we somehow need to figure out how to  
22 get it to them, and I think one of the vehicles for doing  
23 that is through training.

24           All too often we have focused on training  
25 technicians. And I certainly applaud the training of

1 technicians. At the Franchise Tax Board we have an awful  
2 lot of accountants, tax lawyers, collectors, all of whom  
3 need to continually improve their skills. But we can't  
4 ignore the needs of our senior managers and our key  
5 executives.

6 In California we have a huge resource in our  
7 educational institutions, which we can draw on to, in fact,  
8 enhance our training capabilities. But that's one point.

9 A second point is I think we have a unique window  
10 of opportunity, right now, to create mentoring programs for  
11 new managers. As Denzil pointed out in his remarks, I  
12 believe many of our senior managers are ready to retire or  
13 certainly can retire. And we have this opportunity, right  
14 now, to take advantage of their experience, their knowledge,  
15 if we can arrange for mentoring programs.

16 So I certainly would be very supportive of that  
17 idea, and I think it's a great idea that CPR is recommending  
18 it.

19 Additionally, I think that departments,  
20 themselves, need to develop management development programs.  
21 We, at the Franchise Tax Board, developed a management  
22 development program for our own supervisors and we did this,  
23 again, tapping the resources here in California. We did it  
24 in connection with the University of California at Davis.  
25 And what we are teaching people, our supervisors, our new

1 supervisors and managers, were leadership skills,  
2 interpersonal skills, ethical behavior, communication  
3 skills, problem solving skills, strategic planning,  
4 financial management, and environmental awareness.

5 Again, I would argue key skills for a manager, for  
6 a supervisor, and certainly for an executive.

7 At the Franchise Tax Board, in the last five years  
8 we have established a unique way of governing ourselves, and  
9 I think it has lended itself to be a -- it has come to be a  
10 tremendous -- stop. Thank you.

11 COMMISSION CO-CHAIRPERSON KOZBERG: Larry Stone.  
12 If you could do a self-introduction, too.

13 PANEL MEMBER STONE: I'm Larry Stone, the County  
14 Assessor of Santa Clara County. And first, I want to thank  
15 Vice Mayor Pat Dando and Governor Arnold Schwarzenegger for  
16 inviting me. You know, I'm a lifelong Democrat and their  
17 invitation speaks loudly about their commitment to inclusion  
18 and bipartisanship.

19 I also want to praise the Governor for dedicating  
20 his time and personal energy to reforming how our government  
21 services are delivered. You know, performance management is  
22 seldom a formula used by politicians to win elections.

23 As a financial executive in private business,  
24 first beginning on Wall Street and then as a partner in a  
25 San Francisco based real estate and development company,

1 results for me were measured in terms of profits, successful  
2 projects, more customers, and new opportunities for  
3 expansion.

4 The public has the same expectation of their  
5 government, and it is achievable.

6 I spent 16 years as a member of the Sunnyvale City  
7 Council, including two terms as that City's Mayor.  
8 Sunnyvale truly cared about achieving results and about  
9 holding public officials and their staff accountable for  
10 their performance.

11 Sunnyvale was open to innovation as a basic way of  
12 doing the public's business and doing it better.

13 Our approach to performance management in  
14 Sunnyvale centered on what the citizens considered the least  
15 interesting, the driest public document, and that was the  
16 budget.

17 Most of the time, budgets in government measure  
18 priorities by how much is spent, not on what level of  
19 performance that is expected or even achieved.

20 What we did in Sunnyvale was trend setting and  
21 really rare, we made the budget a genuine policy document.  
22 We defined service levels in terms of quantity, quality, and  
23 cost. We built service levels into the annual budget to  
24 discipline the Mayor, and the City Council, a guide to staff  
25 and, of course, inform the public.

1           We established desires outcomes and then priced  
2 those costs of those outcomes. If there wasn't enough money  
3 to pay for that level of service, we changed the desired  
4 level of service to fit the budget.

5           It was a very different approach, which really  
6 triggered a cultural change. When we increase spending on  
7 education, say by ten percent, we say, look how good we're  
8 doing, but we rarely measure or budget our resources on  
9 whether our kids are learning or not. For the first time,  
10 elected officials were explicitly required to define and  
11 approve the results they expected to achieve within the  
12 limited resources available.

13           And I say to you, that's true policy making in  
14 government.

15           Unfortunately, the State of California has fallen  
16 seriously behind when it comes to demanding accountability  
17 and performance.

18           Since I support a number of the Governor's  
19 proposals, far too many to comment on in just five minutes,  
20 I want to focus on the big pictures.

21           First, I've discovered that most public employees  
22 are very talented people, who want to serve the public and  
23 do well.

24           You know, in his book, "Reinventing Government,"  
25 David Osborne described the phenomenon of "good people



1 working in bad systems." Time and again we have come up  
2 against institutional systems and traditions, and even  
3 attitudes, that get in the way and block the good intentions  
4 of the staff and the productive use of their skills and  
5 talent.

6 We need to work on getting rid of bad systems. I  
7 would tell the Governor to focus on the recommendations that  
8 reform the systems and demand measurable performance  
9 accountability.

10 Next, the Governor must continually attack the  
11 existence of an overall organizational attitude that is  
12 pervasive in government, that change is not only not  
13 possible, but is actually undesirable and counterproductive.

14 Although you can hear employees, all the time,  
15 complain about the idiotic rules and procedures, there's  
16 also an air of resignation, that that's the way it is and  
17 that's the way it will always be. That's nonsense.

18 Third, there is a remarkable absence of  
19 accountability based upon establishing clear and practical  
20 performance objectives, and measuring and reporting those  
21 results. Institutionalizing these measures and service  
22 levels directly into the budget is essential for success.  
23 In doing so, it allows employees to take reasonable risks  
24 and accept responsibility for continuous improvement.

25 And finally, I would urge the Governor to focus on

1 big, sweeping changes. As the CPR report documents, pilot  
2 projects, established by Governor Wilson, and other attempts  
3 at piecemeal change have failed.

4           Additionally, remember, that the people funding  
5 these changes are politicians, like myself, with very short  
6 attention spans. So you make sure that there are quick wins  
7 and opportunities for success along the way.

8           And lastly, and it's been said before today, this  
9 is very hard work.

10           In my remaining time, I want to specifically focus  
11 on one change that, as a County Assessor, and past President  
12 of the California Assessor's Association, I strongly  
13 disagree with, and that is CG 19, the proposal to centralize  
14 the assessment of commercial aircraft.

15           The premise of that proposal is that centralized  
16 assessment would potentially reduce the cost of  
17 administering the property tax on aircraft by reducing the  
18 number of filings prepared by the airline industry.

19           That claim is patently false and the reason that  
20 this proposal stalled in the Legislature.

21           In Santa Clara County, 20 airlines filed 47  
22 business/personal property statements. Should this proposal  
23 become law, 19 airlines would file 46 statements, a  
24 reduction of only one business property statement. And this  
25 is because the airlines own more than just a fleet of

1 aircraft. The airline companies own or lease multiple  
2 offices and specialized facilities all containing fixtures  
3 that must be locally assessed, as required by the California  
4 Constitution.

5 And I'll end my remarks there. Thank you very  
6 much.

7 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.  
8 Kelly.

9 PANEL MEMBER MONTGOMERY: Good morning.

10 COMMISSION CO-CHAIRPERSON KOZBERG: You have to  
11 get real close to the mike.

12 PANEL MEMBER MONTGOMERY: Can you hear me okay,  
13 now?

14 Good morning. I am Kelly Montgomery, and I am  
15 here today in a dual role, as Executive Director of the  
16 Public Employment Services Authority, and as a Senior  
17 Manager for CPS, Human Resource Services.

18 CPS is a California Joint Powers Agency, providing  
19 the full continuum of HR services for public agencies  
20 nationwide.

21 PESA was specifically created for the purpose of  
22 identifying, qualifying, and placing retired public agency  
23 executives in interim assignments. So that will be the  
24 focus of our comments today.

25 The Personnel and Performance Management Team is

1 to be commended for a very comprehensive approach, and we  
2 agree with most of the recommendations at the high level.  
3 This is a very complex undertaking, and yet it addresses one  
4 of the most critical issues facing the State of California,  
5 today, and that is its human capital management.

6 As a state, our success in addressing this problem  
7 will really define our success for the future in maintaining  
8 our fiscal stability, our quality of life, and our quality  
9 of service delivery.

10 I'd like to focus today on three key themes from  
11 the recommendations, developing a performance management  
12 strategy, addressing the challenges of the aging and  
13 retiring work force, and developing an integrated strategy  
14 for work place planning.

15 On the first topic, it's appropriate that the work  
16 force management issues are discussed in the context of  
17 performance management. It's the right thing to do,  
18 performance management. It improves service delivery, it  
19 does all of the good government things that we all know are  
20 important.

21 But in addition to that, performance management,  
22 in this sense, is a path to regaining the public's trust.  
23 It's only through a comprehensive program of strategic  
24 planning, budgeting, and performance management that we, as  
25 public employees, are able to garner and sustain the trust

1 of the public.

2           And that's an issue that is rapidly growing as a  
3 challenge, facing government in its execution of its duties  
4 today. The public's level of trust is inversely  
5 proportional to the size of the governmental agency, and  
6 we're pretty large in California.

7           Research tells us that the building blocks of that  
8 public trust are accountability, two-way communication,  
9 responsiveness, service delivery, and ethical decision  
10 making.

11           When properly executed, a performance management  
12 program, founded on a shared strategic vision improves  
13 organizational accountability, allows better public  
14 understanding of priorities, documents service delivery, and  
15 validates the decision making and resource allocation  
16 processes. And while the size and complexity of our State  
17 will never allow the ideal two-way communication referenced,  
18 the Teams' recommendations to provide ongoing communication  
19 to the public regarding goals, measurements, and  
20 accomplishments address the communications issue.

21           With better public trust there will be many  
22 benefits that accrue to public agencies in terms of  
23 reputation and all of the other goals achievements.

24           Given the size and complexity of State government,  
25 we support the recommendation of directing this effort from

1 the Office of the Governor, but it's very important that we  
2 understand that it must be founded on a shared vision.

3 I would encourage a detailed implementation  
4 strategy that defines and clarifies the visioning approach  
5 so that we really are clear and in agreement on what we're  
6 measuring, and how that happens.

7 Also, a caveat in addressing performance  
8 management, some of the factors that contribute to failure,  
9 and that we really need to bear in mind, are failure to  
10 properly define implementation strategies, expecting too  
11 much of the process, and failure to align the process with  
12 organizational culture, and that was mentioned earlier.

13 On the issue of work force, retiring work force,  
14 I'll just go quickly through some of the contributing  
15 factors that we've found in our studies, and the full  
16 studies available on the CPS website.

17 Expanding the size of the work force in the  
18 sixties and seventies, downsizing in the eighties and  
19 nineties, trimming budgets, and we've talked about many of  
20 these here. The declining appeal of public service. And I  
21 think that the recommendations address that in how we  
22 attract good people for the future.

23 And then on work force planning, the  
24 recommendations are we again support the Teams'  
25 recommendations, and they're in the written comments

1 strategies, supporting the recruitment to retirement  
2 continuum, so that it's an integrated strategy, it's not a  
3 quick-fix strategy at either end of the work force process,  
4 but rather a comprehensive process.

5 And then rethinking classifications, considering  
6 the changing work force, and performing gap analysis as  
7 we're doing that, so that it's a strategic work force  
8 planning, rather than trying to do succession planning for  
9 all positions.

10 In conclusion, it's not possible to overemphasize  
11 the importance of integrated strategies, a comprehensive  
12 approach, partnering, and collaboration. Total strategy  
13 must consider California's total vision for its people, its  
14 work force, its fiscal stability, and its economy.

15 Thank you.

16 COMMISSION CO-CHAIRPERSON KOZBERG: Jim Hard.

17 PANEL MEMBER HARD: Thank you. I'm an Employment  
18 Program Representative with the Employment Development  
19 Department, I'm also President of Service Employees  
20 International Union, Local 1000, and on behalf of our 90,000  
21 members, I'd like to thank you for the opportunity to  
22 testify.

23 Our views on improving State government are based  
24 on one overriding principle, and that's that California  
25 needs the right number of workers, with the right skills to

1 provide the best service.

2 That's why we appreciate the CPR's recommendations  
3 for a more competitive salary structure and updated job  
4 classifications. We also agree that the State should invest  
5 in better staff training, with the State Personnel Board  
6 monitoring testing, the testing process, to ensure fairness.

7 State employees understand, from experience, what  
8 makes a reform effort succeed or fail. The model for  
9 success includes four key ingredients. First, an open  
10 process with maximum public involvement.

11 Second, a strong commitment to the public  
12 interest, with no potential conflicts of interest.

13 Third, a pragmatic, problem-solving approach  
14 rather than a narrow, ideological approach.

15 And fourth, direct involvement of those who  
16 actually do the work of State government.

17 Up to this point, unfortunately, the process used  
18 by the California Performance Review has been seriously  
19 flawed. First, virtually every critical aspect of the CPR  
20 process has taken place behind closed doors. What arguments  
21 or information were used to develop specific proposals and  
22 who made them?

23 What alternatives were considered and discarded?  
24 We don't know.

25 Therefore, we urge Governor Schwarzenegger to open



1 up the process. Californians have the right to know how  
2 decisions were made and who was involved.

3 Second, there's an enormous potential for conflict  
4 of interest. Business executives, consultants, lobbyists,  
5 sales representatives, attorneys, and others have  
6 participated in making CPR recommendations involving  
7 billions in public funds. Yet, we have no information on  
8 who worked on which proposals and we don't know the  
9 financial interests of any of the consultants.

10 It doesn't matter that these individuals were  
11 uncompensated for their work. Right here, in San Jose,  
12 unpaid consultants for Cisco Systems were involved in a  
13 major scandal which contributed to the resignation of two  
14 city officials, and will possibly cost San Jose taxpayers  
15 millions of dollars.

16 We fear the CPR process has similar potential for  
17 conflicts of interests, that's why we recommend that the  
18 experts, who assisted in the process, disclose their  
19 financial interest in any CPR proposals. We also urge  
20 public disclosure of any contacts between CPR staff with  
21 lobbyists.

22 If there is a potential conflict of interest, the  
23 proposal in question should be removed from the CPR package  
24 and reevaluated at a later date.

25 Third, many recommendations of the report are

1 based on narrow ideology. For example, consider the very  
2 basic question of how many State employees should California  
3 have in the future? No successful business estimates its  
4 future work force needs by simply assuming it won't replace  
5 the workers who are planning to retire.

6 A successful business first determines its  
7 markets, it's competition, and it's growth and revenue  
8 projections, and then calculates the work force it needs to  
9 meet its objectives.

10 But the CPR proclaims that the State can operate  
11 with 12,000 fewer employees by fiscal year 2009, and takes  
12 credit for saving more than \$4.3 billion as a result.

13 That amount seems based on the ideology that  
14 California should arbitrarily cut the size of government,  
15 without regard to the people it serves.

16 Instead, we should determine what needs to be done  
17 before deciding who should do it.

18 Ideology is also evident in the many  
19 recommendations calling for outsourcing of State services.

20 Despite ample evidence and analysis from such  
21 states as Florida, Texas, and California that privatization  
22 can fail, nothing about the possibility of failure is  
23 mentioned in the CPR.

24 At the same time, states like Virginia and  
25 Delaware have saved millions of dollars by insourcing their

1 IT functions. But there is no mention of those successes  
2 either.

3 How many other significant ideas for cost savings  
4 and improved services were ignored or avoided by the CPR for  
5 ideological reasons?

6 We urge the Governor to discard those  
7 recommendations based on narrow ideology and concentrate on  
8 pragmatic proposals that will work.

9 Fourth, the CPR report is missing the perspective  
10 of rank-and-file State employees, those on the front lines  
11 of State government. Despite overwhelming evidence that  
12 rank-and-file employees should be involved in the process  
13 from the start, fewer than 10 percent of participating State  
14 employees were rank-and-file.

15 Fortunately, it is not too late. Our members  
16 welcome the opportunity to contribute their expertise. We  
17 urge the Governor to use this valuable resource.

18 Californians deserve the most successful effort  
19 possible to reform and improve State government. That  
20 requires a process based on openness, focus on public need,  
21 real-world experience and practical solutions.

22 Thank you.

23 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

24 Thomas Hinton.

25 PANEL MEMBER HINTON: Thank you very much and good

1 morning. My name is Tom Hinton and I serve as the President  
2 and Chief Executive Officer of the California Council for  
3 Excellence, or CCE. And on behalf of CCE, whose members and  
4 volunteers represent all industries and sectors of  
5 California, private and public sectors, I'm pleased to voice  
6 CCE's support for the performance-based management  
7 recommendations set forth in the CPR report, and encourage  
8 the Governor to move quickly to implement these important  
9 recommendations.

10 For your information, CCE is a nonprofit, tax-  
11 exempt, educational foundation. We're headquartered in  
12 Poway, California, near San Diego. And we administer the  
13 Malcolm Baldrige Award emulation throughout the State of  
14 California. The Baldrige Award is the highest honor that  
15 any business, educational institution, or healthcare  
16 organization can receive for sustaining excellence in all  
17 key areas of their organization.

18 Each year, the President of the United States  
19 presents the Baldrige Awards to deserving applicants.

20 In California, through our baby-Baldrige Award  
21 program, known as CAPE, we've recognized over 175  
22 organizations, including several State government agencies,  
23 such as California's State Parks, for their commitment to  
24 performance excellence at various stages of continuous  
25 improvement.

1           Today, I'd like to briefly discuss two strategic  
2 questions relating to how you make these recommendations  
3 really work once they're adopted and deployed. And those  
4 questions are these; one, how do we help State agencies  
5 advance their most current performance levels to a level  
6 that most citizen customers would consider to be excellent?

7           And question number two, how will the State  
8 agencies know when they have achieved a level of excellence,  
9 because just saying we've achieved excellence doesn't  
10 necessarily make it so.

11           A major part of the problem is that most  
12 California State agencies lack a systematic approach to  
13 excellence, and that is why they under-perform.

14           When I use the term "systematic approach," I'm  
15 referring to a model of excellence that includes the  
16 following vital components, and these are the building  
17 blocks of long-term success in every organization; core  
18 values that inspire our employees to create and achieve a  
19 culture of excellence; a strategic plan, setting both  
20 realistic and stretch goals; establishing performance  
21 metrics; a budget based on realistic needs and desired  
22 results; and, an annual organizational assessment that  
23 measures performance, accomplishments, and opportunities for  
24 improvement.

25           In other words, an independent assessment,

1 conducted by trained experts, who have no conflicts of  
2 interest, no special interests, or axe to grind.

3 And with regard to our second question, how will  
4 we know when we have achieved excellence, we believe the  
5 ultimate answer is the customers of State government will  
6 tell agencies just how good or mediocre they really are.

7 But of course, agencies must be willing to ask for  
8 customer feedback and, frankly, for many State agencies,  
9 today, this is a scary proposition, because many government  
10 agencies are operating without core values, without clear  
11 direction, without metrics, and in a dysfunctional budgeting  
12 process, as you heard earlier.

13 And while the Governor has done a suburb job of  
14 inspiring and motivating State employees to achieve more,  
15 and he has set forth guiding principles by which the State  
16 should conduct its business with integrity and fairness,  
17 frankly, that isn't enough.

18 Each agency must have in place an operational  
19 model for excellence, by which it functions day in and day  
20 out.

21 Now, when the leadership direct an organization to  
22 assess its performance based on a proven model, amazing  
23 things happen. Suddenly, there's change. People begin to  
24 realize they're accountable to their customers and,  
25 suddenly, their job performance and work product improve.

1           Let me quickly note here that a model for  
2 excellence, it doesn't make very much difference whether  
3 we're dealing with IBM or the DMV, we certainly understand  
4 that government is very different from the private sector  
5 because government's mission, vision, and goals are  
6 radically different from those of private enterprise.

7           But in order for government and the private sector  
8 to provide, they must perform and achieve results.

9           Certainly, the best model I've discovered, that  
10 will allow each and every State agency to fully achieve its  
11 potential, is the Malcolm Baldrige Award criteria for  
12 performance excellence.

13           This national model, which is federal law, by the  
14 way, has been in place since 1987 and has been adopted by  
15 more than 68 countries around the world. So we strongly  
16 endorse this panel to include, in its recommendation to the  
17 Governor, that every State agency adopt the Baldrige Award  
18 model to assess their performance and improve their results.

19           Thank you very much.

20           COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

21           Carol Chesbrough.

22           PANEL MEMBER CHESBROUGH: Good morning. I think  
23 I've been handed an opportunity. The one most challenging  
24 thing, as a speaker, is to speak after lunch. The other  
25 most challenging is to speak immediately before lunch. So

1 thank you for giving me that opportunity.

2 I'm here today, I hope, because I absolutely have  
3 a passion for public service, I really do. And I do  
4 represent the demographic, by the way, I'm right in there,  
5 you know, one of the persons that are eligible to retire, in  
6 that good group. So why wouldn't I do it, why wouldn't I go  
7 right now if I'm eligible to go? Because I'm not finished.  
8 There's one last thing I want to do, and that's be part of  
9 the legacy. Everyone wants to leave that behind.

10 I think Steve wants to leave it behind. You know,  
11 we tried it in the nineties, why didn't it work? Because we  
12 needed to finish it. And I think the time is now. I don't  
13 have a lot of time left that I'm probably going to be in  
14 State service, so I really want it to begin right away, I  
15 don't want to wait.

16 I think there's great plans, you have them all  
17 before you. The one that I would elevate, in the section  
18 that I've been reviewing and want to talk about, is the  
19 leadership, and the management, and the learning component.  
20 I absolutely think that should be top priority and it should  
21 be directly under the Governor. There's nothing more  
22 important than that. And it's absolutely perfect that we're  
23 here at the University. It's perfect. And it's perfect  
24 that we're here in Silicon Valley, and I know that's for a  
25 reason.



1           Because I think that if you put industry, and you  
2 put government, and you put all the delivery sources that  
3 you have, and all the academics that you have, the best of  
4 the best in a room and told them don't come out until  
5 there's plan, and a way to do it, and to overcome all the  
6 obstacles, and we need it right away, I know we can do it.  
7 It's absolutely I'm convinced of that.

8           You know, there's kind of a little thing that  
9 comes up for me when we talk about public service because I  
10 think people really do come into public service to serve.

11          All my family is involved in public service. I  
12 have a deputy sheriff as a brother. I have a principal,  
13 elementary school, as a sister. My husband is a fireman.  
14 And my youngest child is in the Air Force, at the United  
15 States Air Force Academy. I think our whole family is  
16 committed to service.

17          But I can remember when I first came into public  
18 service, which now I'm going into my 25th year. It's sort  
19 of like, I don't know, maybe, hopefully, you guys are old  
20 enough to remember a toy that was like Bozo the Clown. You  
21 know, you blew it up and it had sand in the bottom, and you  
22 punched it, right, your folks gave it to you, hoping that  
23 this would, you know, prevent you from breaking furniture  
24 and things like that in the house, from being overly  
25 destructive.

1           Well, you come into State government and you're  
2 all pumped up, boy, are you going to save the world. You're  
3 going to serve the citizens, you're going to do it right  
4 now, and you're not going to sleep until it's done. So,  
5 okay, you come to your desk and you see all these piles, and  
6 you start working on them, and something happens, usually  
7 fairly quickly, and you go, this is really a stupid way to  
8 do this. And you go, not a problem, I'll just change it.

9           So you walk in and you try changing it, pow, it's  
10 all those system barriers that we talked about, it's not the  
11 people. That goes on over time and pretty soon you're out  
12 of patches, you lost your air pump, and it's really tough to  
13 get up, but that's what I want to do.

14           And it's really great that we are even coming  
15 during the period of the Olympics, we have a timer, we're  
16 reaching for the finish line. We lost our sign.

17           (Laughter.)

18           But what do we need, we need a Governor's  
19 institute, or academy, foundation, or whatever you want to  
20 call it, that just speaks to learning, and what we need.  
21 And we need it right away, two things.

22           The first imperative that we absolutely need is a  
23 training delivered in the next three to six months, no  
24 longer than that, I would hope shorter than that, on how to  
25 do performance-based budgeting. We ought to at least get

1 that far, get our goals together, understand how to measure  
2 it and go forward.

3 The second commitment, that needs to go on  
4 concurrently, is a lifelong commitment to learning. This  
5 country was founded on that. And as this report, which was  
6 done a few years ago, which is entitled "Developing a High  
7 Performance 21st Century Work Force For California  
8 Government" is still good today. And I was one of the Co-  
9 Chairs and, actually Joanne Kozberg was a part of that.

10 And there's something in there that the report  
11 says, this is what you need for peak performance. You need  
12 vision, investment, and sustained commitment. These are  
13 simple, but difficult to do. We need that commitment. It's  
14 not that difficult to do.

15 You heard about models that are getting delivered  
16 right at their agencies. We've partnered with other sister  
17 agencies to deliver leadership training at a very low cost.

18 I believe in the people who serve California and I  
19 think we need to help now, that's how we're going to change  
20 the culture, and we have everything we need.

21 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

22 Questions? Joel.

23 COMMISSIONER FOX: Thank you. I have two  
24 questions, actually, one a general one, one more specific.  
25 And the general one may be best for the last Panel, or maybe

1 for some of our budget experts on this Panel, but I'd like  
2 to know how we can make the budget document, itself, more  
3 accessible to the general public. How do the taxpayers know  
4 what they're getting, what they're paying for?

5 And while you're thinking about who wants to  
6 answer that, my specific question is to Assessor Stone, his  
7 passion for that one change he disagreed with, the CPR  
8 recommendations on the airlines, that seems consistent to me  
9 with what the State currently does with the utilities and  
10 railroads. Why is the issue different with airlines?

11 PANEL MEMBER STONE: Well, it's different because  
12 it's being proposed as an efficiency move to centralize the  
13 assessment. And as I indicated in my remarks, airlines own  
14 more than the fleet of aircraft.

15 What we need, and we're working on right now with  
16 the airline industry and the California Assessor's  
17 Association, is a uniform assessment of aircraft, done  
18 throughout the State, but done locally and consistent with  
19 the business/personal property statements they file for  
20 their offices, and for their equipment, and for their  
21 machinery, and all that kind of stuff.

22 So there's a way to get at this and, in fact, I  
23 think we're close to -- I know the L.A. County Assessor is  
24 here -- we're close to reaching agreement with the airline  
25 industry to make it work right, so they file -- they still

1 have to file a business/personal property statement in every  
2 county, but the assessment of aircraft would be centralized  
3 throughout the State with a formula.

4 COMMISSION CO-CHAIRPERSON KOZBERG: Gerry, do you  
5 want to take the budget question?

6 PANEL MEMBER GOLDBERG: Sure. I guess my  
7 response, and it's only mine, is that if we can figure out  
8 some way to link the tax system with the budget system.  
9 There have been ideas in the past about publishing parts of  
10 the budget, or at least a small summary of the budget in the  
11 tax booklet but, quite candidly, most people don't read the  
12 tax booklet, so I'm not sure how viable that is.

13 But it seems to me that there ought to be a  
14 connection between paying your taxes and this is what your  
15 taxes pay for. And perhaps we need more of a dialogue as to  
16 how to make that happen. We obviously have extensive  
17 material out on the web. Perhaps we could have additional  
18 material out on the web, or some sort of mailings.

19 But I certainly agree with you, I think taxpayers  
20 ought to have a better understanding of the linkage.

21 PANEL MEMBER STONE: Yeah, I don't think --  
22 frankly, I don't think the public cares too much about the  
23 budget. What they care about is the level of service. And  
24 if they think they're getting a good level of service for  
25 their dollars, they don't really have to delve into the

1 budget.

2           And I think tying it, tying service levels to the  
3 budget is absolutely essential for success. There's really  
4 a disconnect, even in a performance-based system, between  
5 what you get, what the expected outcome is and the money.  
6 And so often we set great, grandiose objectives and  
7 outcomes, but we don't tie it to the dollars we've got and  
8 we set ourselves up to financially fail.

9           COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.  
10 J.J. and then Dale. And then are there others? And then  
11 Joanne.

12           COMMISSIONER JELINCIC: Yeah, this is actually for  
13 any of the Panel members. For a performance measurement to  
14 work, you have to have an agreement on what it is you're  
15 measuring. And how do you develop performance measurements  
16 for outcomes, not just outputs? In other words, how do you  
17 develop a performance measurement that looks at the quality  
18 of the widget, not just how many of the widgets.

19           PANEL MEMBER HINTON: Maybe I could take that. I  
20 think Chon gave a good example with the DMV. I mean, what's  
21 the outcome that you want at the DMV, you want to get in,  
22 get your license, or renewal, or whatever it is, and get  
23 out. You don't want to spend time waiting in line.

24           So I think the short answer is you go to your  
25 customers, of which we all have customers, and you ask them

1 what are your expectations. And your customers will define  
2 the expectations. And any good business or public agency  
3 should be responsive to the needs of their customers.

4 One of the challenges that we have in government,  
5 though, is sometimes you have to have the foresight to be  
6 able to tell the citizens what they need, when they really  
7 haven't arrived at that point yet.

8 So I think the ultimate answer is you have to have  
9 visionary leadership, but you also have to go back and ask  
10 the customers what do they want and then deliver the widget,  
11 to use your term, in a quality fashion so that the customer  
12 is happy. Because if they're not, they revolt.

13 COMMISSION CO-CHAIRPERSON KOZBERG: Dale.

14 COMMISSIONER JELINCIC: The widget reflects the  
15 fact that I got a BA in economics and an MBA in finance.

16 PANEL MEMBER HINTON: Well, I'm sorry to hear that  
17 but --

18 (Laughter.)

19 COMMISSIONER JELINCIC: And we dealt with a lot of  
20 widgets.

21 PANEL MEMBER HINTON: Sure.

22 COMMISSION CO-CHAIRPERSON KOZBERG: Dale.

23 COMMISSIONER BONNER: This is a couple questions  
24 for Mr. Goldberg, just about the management program.

25 Because I do agree with the sentiment that Mr. Benton was

1 expressing a while ago, that at the core of much of this, or  
2 the ultimate success is going to require a cultural shift.  
3 And I think our greatest in that regard lies with those who  
4 are coming into the system, now, and those who we will look  
5 to, to be future managers.

6 Can you describe, just in terms of the management  
7 program you alluded to, some of the key components in terms  
8 of whether is it discretionary, is it mandatory, what's the  
9 incentive for participating, you know, what kind of outcome  
10 do you look to and expect from those who participate? Just  
11 give me a little flavor for how it really plays into the  
12 program.

13 PANEL MEMBER GOLDBERG: Surely. And I actually  
14 spoke to both the California Leadership Institute and our  
15 own internal Management Development Program. And actually,  
16 in many respects, they're very similar. They're both  
17 voluntary. People who are upwardly strivers, we encourage  
18 them to participate. It's not crucial, they can obviously  
19 get the promotion without having participated. But  
20 certainly, we feel it's in their interest if they attend.

21 And I think that was true of the Leadership  
22 Institute and it certainly was true of our Management  
23 Development Program. Both programs are exceedingly rigorous  
24 and they require working with teams, developing papers,  
25 reporting.



1           Senior management, at the Franchise Tax Board, and  
2   our Management Development Program, actually we sat and we  
3   listened to the reports. I've got to tell you, from time to  
4   time it was a little tedious. But, in fact, we listened to  
5   the reports. It gave me not just the information within the  
6   reports, obviously, but it gave me a good sense of the  
7   people who were behind those reports, and I thought it was  
8   very, very beneficial.

9           COMMISSIONER BONNER: Why is it voluntary?

10          PANEL MEMBER GOLDBERG: Again, we did not feel it  
11   was appropriate, it was simply a management decision to  
12   require this. And in terms of putting it as a part of our  
13   criteria for upward mobility, I would have thought that  
14   would have been a bit of a stretch.

15          PANEL MEMBER CHESBROUGH: In our leadership  
16   program, if I could add that, Mr. Bonner, we do require it  
17   for all supervisors and above. We're a very small  
18   department, however, this is the Department of Financial  
19   Institutions, approximately 200 people there. Franchise Tax  
20   is incredibly large. I don't know that you can compare them  
21   at all. But we do require it.

22          And I think that's the part about the  
23   infrastructure for human development that makes it really  
24   important is to tie it to the next job, or the next level  
25   that you might want to excel to. To tie it to your

1 performance reviews, to identify where you're performing or  
2 where you're not, where there's more help needed, how to  
3 provide that need.

4 And you know, there's four parts of that, that we  
5 really train to, and that's leadership and management, and  
6 helping understand the difference, and also into character  
7 and competency.

8 COMMISSION CO-CHAIRPERSON KOZBERG: Beverly.

9 COMMISSIONER DANDO: Thank you very much.

10 I know that our task -- actually, this question  
11 was asked to the first Panel, by a couple of the members of  
12 this Commission, and I know that our task is to be more  
13 efficient. I know that in reading the background material  
14 for statewide operations, that if we really did all of this  
15 it would save about \$32 billion in the next five years,  
16 which seems almost unheard of.

17 And also, there have been reforms for the  
18 personnel studies, actually three of them since 1995, that  
19 have gone nowhere. There didn't seem to be money in the  
20 budget for a lot of technology, I think in the past few  
21 years.

22 But when 79 departments can't communicate with one  
23 another and we can't get all of these messages out, I think  
24 it's absolutely necessary that we pay a great deal of  
25 attention to what we're talking about today. And it's hard

1 to do. You need will, you need commitment, you need to buy,  
2 and you need training.

3 Before I was a Mayor, I was in education, and one  
4 of the colleges I visited a long time ago had computers on  
5 the desk that no one was using because they hadn't received  
6 the proper training and were really afraid of them.

7 So what we're talking about here is years and  
8 years. It's wonderful that we have the commitment of the  
9 Governor to try to do some of these things, but Larry  
10 mentioned it, when he was talking, he said, "lastly, this is  
11 very hard work."

12 I'd just like to ask you where can we go with  
13 this, knowing the initial investment that it's going to  
14 take, the time it's going to take? After one or two years,  
15 you know, we maybe don't have the same commitment, three  
16 years, five years. It just seems like such a big thing that  
17 we're talking about today, and needed.

18 But I'd just like to have your take on it. I'd  
19 like to hear Larry, I'd like to hear Gerry just talk about  
20 this for a minute.

21 PANEL MEMBER STONE: Well, what I gave you is a  
22 capsule of what happened in Sunnyvale. What I didn't tell  
23 you is it happened over 20 years and it's still going on.  
24 So it's a long-term commitment.

25 But it's not rocket science. Stuff is being done.

1 I mean, States of Texas, Florida, Virginia, Washington are  
2 making great inroads.

3 Countries. I mean, they have a full fledged  
4 performance management, and measurement, and accountability,  
5 and evaluation system in the Country of New Zealand. It's  
6 probably one of the best that there is. Australia. Great  
7 Britain.

8 Tom Lewcock, who used to be the City Manager of  
9 the City of Sunnyvale, is doing consulting all over the  
10 world. He says Poland is doing more in performance  
11 management than we are here, in Santa Clara County. It's  
12 embarrassing.

13 But there are successes around that are really  
14 good. Washington D.C. I mean, would you ever expect the  
15 home of Marion Berry to be doing some great things in  
16 Washington D.C. toward performance management. Steve  
17 Goldsmith, in Indianapolis.

18 These are models that you can pick up on all over  
19 the country. And it's long, it's hard work, but it's not  
20 impossible.

21 PANEL MEMBER GOLDBERG: I certainly agree, it is  
22 not rocket science. It requires a passion, and you find  
23 that passion. I certainly heard it in Carol. I have it,  
24 myself, a passion for public service, for public  
25 administration.

1           It can be done. Does it take time and effort?

2     Sure, it does.

3           I was going to comment in my remarks about  
4     something we're doing at the Franchise Tax Board. We've set  
5     up a Governance Council. The Governance Council is  
6     comprised of my Division Chiefs. In effect, I've given them  
7     responsibility for the enterprise, the internal enterprise.  
8     They have the responsibility for making all of the decisions  
9     with regard to the internal aspects of the organization.

10           They finally are having to look beyond their own  
11     silos of audit, collections, whatever, whatever, to look at  
12     things from an enterprise perspective. It has truly been a  
13     wonderful experience for them as a training device, it has  
14     truly been a wonderful thing for the Franchise Tax Board, as  
15     a vehicle for innovation and improvement.

16           It is a very, very powerful tool and I just want  
17     to toss that concept out as well. So finding people who are  
18     passionate, they're throughout government, absolutely.

19           COMMISSION CO-CHAIRPERSON KOZBERG: Kelly.

20           PANEL MEMBER MONTGOMERY: And I'd like to respond  
21     and, actually, my response will address in some way the  
22     question regarding the budget, the question regarding how do  
23     we decide what we're going to measure, because I think  
24     they're all part of the same question and the solution is  
25     all part of the same.

1           In order for this to be a sustained and successful  
2 effort, because it's not going to happen next week, we have  
3 to make certain that the people of the State of California  
4 are part of the process. And I don't mean some free-for-all  
5 endless visioning process that we do for the next 20 years,  
6 but we have to energize the public around a vision, the  
7 comments that I made.

8           And I think that there are organizations that are  
9 specifically dedicated to communicating with the public,  
10 getting the public involved in a controlled manner, finding  
11 out what the needs are and also educating the public on what  
12 the expectations can be for that alignment that we talked  
13 about. So I think it's all part of the same.

14           I think, for it to be sustained, the public has to  
15 be there and to carry that vision, as well.

16           COMMISSION CO-CHAIRPERSON KOZBERG: I have the  
17 last question before lunch.

18           PANEL MEMBER HARD: Excuse me, could I just weigh  
19 in on that, briefly?

20           COMMISSION CO-CHAIRPERSON KOZBERG: Oh, certainly.  
21 Sorry.

22           PANEL MEMBER HARD: Because I have been with the  
23 State for a very long time, from the Jerry Brown  
24 Administration to this one, and I think one of the -- I  
25 think that I share the passion for public service that

1 others have expressed, and I know my co-workers do.

2 I think the difficulty for us, for a sustained  
3 effort, is the political process that's on top of this.  
4 Because the failure to invest, speaking of IT, in the  
5 infrastructure of State service, has been political  
6 decisions that have been made by Legislators and Governors  
7 for a couple of decades, at least.

8 The State Controller's computer is the perfect  
9 example. It's from the seventies. It uses, I think, DOS or  
10 Fortran, languages that nobody does anymore. Cobalt, pardon  
11 me. I'm not a computer person.

12 So I think we can do those kind of efforts that  
13 are at the level of civil service management and below, we  
14 could sustain if we had consistent support from the  
15 political leadership. Infrastructure does require political  
16 commitment in terms of taxes and, you know, funding.

17 Thank you.

18 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

19 Jerry, you represent what, to many, is the  
20 ultimate control agency.

21 (Laughter.)

22 COMMISSION CO-CHAIRPERSON KOZBERG: And yet you  
23 have been cited in CPR, and I've heard it elsewhere, as  
24 really having the best of class in customer service. It  
25 wasn't always thus.

1           How did you create that type of culture?

2           COMMISSIONER JELINCIC: Well, we honestly thought  
3 for a long time we were best of class, and then we asked our  
4 customers, quite honestly, and they said we weren't. And  
5 after briefly recovering from that shock, we went and we  
6 asked them, in particular our customers that I'm talking of  
7 here are tax preparers. There are literally thousands of  
8 tax preparers, and we went out to them and we said, what is  
9 it we are doing right and what is it we are doing wrong?

10           And they were very candid. We met with them in  
11 focus groups and they were very candid with us, and they  
12 said, you do an awful lot of things right, but here's some  
13 of the things you do wrong. And we said, we'll change them,  
14 and we did. And we got very good marks from them.

15           And over the last several years we've been  
16 continuing these focus groups, quite honestly, and we don't  
17 get a whole lot of input from them because they, in effect,  
18 said you've been responsive. Obviously, you can always  
19 continue to improve. But we went to our customers and we  
20 tried to listen to them and respond.

21           COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

22           Carol.

23           PANEL MEMBER CHESBROUGH: If I could just leave  
24 you with a final thought about the challenge and the  
25 difficulty, if it wasn't hard, it wouldn't be worth doing.



1           COMMISSION CO-CHAIRPERSON KOZBERG: Thank you. I  
2 want to thank the Panel for an excellent job.

3           We're going to take lunch now, and we'll be back  
4 at ten minutes until 1:00 to start.

5           (Thereupon, the luncheon recess was  
6 held.)

7                               --oOo--

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## 1                   A F T E R N O O N   S E S S I O N

2                   COMMISSION CO-CHAIRPERSON HAUCK:   This is our  
3   second, or third, is it, I don't remember, third panel of  
4   the day, let's put it that way, related to Procurement and  
5   Information Technology.

6                   I'm going to let the Panelists introduce  
7   themselves, as we proceed here, but we're going to start  
8   with Carl Guardino, who's the President of the Silicon  
9   Valley Manufacturing Group, and then proceed from there.

10                  Carl.

11                  PANEL MEMBER GUARDINO:   Chairman Hauck, and  
12   Members, thank you so much for this opportunity today.

13                  On behalf of the Silicon Valley Manufacturing  
14   Group and our 195 member companies, who collectively employ  
15   about a quarter of a million people here, in Silicon Valley,  
16   and obviously many times that around our state, nation, and  
17   world, it's an honor to serve on CPR's Procurement and IT  
18   Expert Witness Panel.

19                  First, I want to commend the Governor, and each of  
20   you, for taking on this massive and vitally important  
21   effort.

22                  We must do all we can to deliver government  
23   services in a way that is fair, efficient, cost effective,  
24   and customer friendly.

25                  A significant percentage of CPR's 1,100

1 recommendations further achieve that objective.

2 In my five minutes of public testimony I will only  
3 have time to touch upon 34 of those 1,100 recommendations.

4 But in keeping with the Olympic theme of the past  
5 two weeks, I will refrain from letting you know which ones  
6 are 10's, 9.9's, or 1's, and just give you overall views of  
7 whether we support them or don't feel they are worthwhile.

8 In the area of procurement and IT, I would offer  
9 the following thoughts. First, strong support for reference  
10 points SO 05 and SO 07, as it relates to State Enterprise  
11 Architecture, and the need for uniform statewide data  
12 management standards and guidelines.

13 These reference points warrant support for several  
14 reasons. They provide for ongoing competition with each new  
15 bid, they help prevent the State from getting stuck if a  
16 vendor goes out of business. They lower the State's  
17 software costs for maintenance, because alternatives are  
18 available. They provide for breadth of function to satisfy  
19 the State's diverse needs.

20 Second, strong support for reference points SO 05,  
21 SO 21, and SO 29, SO 30, and Chapter 7 for IT Item Number 3.

22 These reference points deserve support, also, for  
23 several reasons. First, there is amazing versatility and  
24 potential savings here. These offerings should include  
25 statewide e-mail, statewide infrastructure for file and

1 print serving, state infrastructure for E-forms and work  
2 flow, state web-serving and website creation tools, and  
3 statewide infrastructure for security.

4 Third, strong support for reference points SO 02B  
5 and C, as it relates to technology governance. This  
6 provides a Chief Information Officer with budget and project  
7 authority, and the accountability to accompany it.

8 Fourth, strong support for reference point SO 15,  
9 relative to voice over internet protocol. This deserves  
10 support for numerous reasons, including the facts that  
11 voice-over IP is a way to dramatically lower the billions of  
12 dollars the State is spending on telecommunications. IT  
13 will effectively allow the State to share infrastructure  
14 with data systems, offer far more product capabilities for  
15 call centers, and lower the overall costs of  
16 telecommunications.

17 Areas of the report that I would respectfully  
18 oppose, and I'll be that Olympic judge for a moment, are  
19 mainly in two areas. The suggestion to explore open source  
20 alternatives, would be number one. Procurement decisions  
21 should be based on the merits of the technology, not whether  
22 it's open source or commercial.

23 Our members do not believe that the total costs,  
24 acquisition, and administrative costs of open source are  
25 necessarily cheaper than proprietary software, nor do we

1 think one is necessarily more secure than the other.

2           Hence, it is in the best interests of the  
3 California taxpayers that these procurement decisions not be  
4 prejudged based on the method of software development.  
5 Rather, these procurement decisions should be based on a  
6 combination of performance, security, value, and cost of  
7 ownership.

8           Second, the suggestion to allow advertising on the  
9 California State portal as a means of self-funding is also  
10 troubling. First, advertising is not the role of  
11 government. Instead, California needs to streamline it's  
12 operation and then provide efficient electronic services.

13           Second, it may cheapen the image of the State as  
14 for sale to the highest bidder, which is not a California  
15 initiative.

16           Finally, it creates an image that the advertiser  
17 is somehow authorized by the government and curries more  
18 favor.

19           Thank you, again, for allowing SVMG to participate  
20 in this important process. I want to stay in my five  
21 minutes, and set the tone for the rest of your afternoon,  
22 and so I will end my comments there. But please feel free  
23 to call on SVMG again, on this or any other section of this  
24 report, as we move forward.

25           COMMISSION CO-CHAIRPERSON HAUCK: Okay, Carl, I

1 know you have to leave, is there any other area of the  
2 report that you'd like to comment?

3 PANEL MEMBER GUARDINO: Well, I'm glad you asked.

4 COMMISSION CO-CHAIRPERSON HAUCK: No problem.

5 PANEL MEMBER GUARDINO: Co-Chairman Hauck, thank  
6 you. If I may stray away from IT for just a moment,  
7 infrastructure is so important to our State and certainly a  
8 core competency of the Silicon Valley Manufacturing Group,  
9 that I will make four brief comments, all in strong support.

10 One is in reference to infrastructure,  
11 specifically energy, and I would comment positively about  
12 reference points INF 22 and 23. Even after the 2001 rolling  
13 blackouts, California, as you know, still lacks an  
14 integrated energy plan to meet our transmission, generation,  
15 conservation, and efficiency needs.

16 The CPR suggests strategies to ensure that we  
17 build a sufficient supply of reliable, and available, and  
18 affordable power. Specifically, it calls for a unified  
19 permitting authority to cite power plans and transmission  
20 lines, and it calls for the consolidation of energy  
21 efficiency and conservation programs, and we wholeheartedly  
22 support that.

23 Second, as it relates to environmental services, I  
24 would point out reference point RES 20, and comment quickly  
25 that the thought of putting together hazardous materials and

1 hazardous waste under a Department of Environmental  
2 Protection, instead of spread out in different branches of  
3 government is sound policy that would better serve the  
4 public, empower State workers, assist regulated employers,  
5 and hold companies accountable.

6 Third, strong support for GG 17, as it relates to  
7 tax policy and the business climate. California needs more  
8 manufacturing jobs, not just lower paying service jobs.

9 As you all know, California's manufacturing  
10 employees are paid, on average, \$25,000 a year more than  
11 service jobs. Yet, California continues, unfortunately, to  
12 be among the least friendly states to do business. The cost  
13 of doing business in California is the third highest in the  
14 country.

15 The CPR notes the negative impact, not just on job  
16 providers, but on workers in our economy, and calls for a  
17 five percent sales tax credit for purchases of manufacturing  
18 and telecommunications equipment.

19 Currently, 38 other states, our competition, offer  
20 an exemption for such purposes. And the CPR is dead on in  
21 making that recommendation.

22 The final point, Chairman Hauck, is relative to  
23 education. The report notes that too many of our kids drop  
24 out of high school. Too many, who do graduate, do not have  
25 the education and skills needed to compete for decent paying

1 jobs.

2 In addressing the former, CPR acknowledges, in ETV  
3 03, 10, 25, 26, and 27 that we can address those issues by  
4 making sure that there are alternative paths to graduation,  
5 that students need a broad skill set to be successful, and  
6 that we need to align education and skills to employment  
7 needs, and recognizes the crucial role our community  
8 colleges play in how to strengthen that role.

9 COMMISSION CO-CHAIRPERSON HAUCK: Thank you, Carl.

10 PANEL MEMBER GUARDINO: Thank you.

11 COMMISSION CO-CHAIRPERSON HAUCK: You're free to  
12 go, when you need to go.

13 PANEL MEMBER GUARDINO: And my apologies, yet many  
14 of you may have been through similar, but my wife and I are  
15 expecting our first child and she's -- the last two days she  
16 hasn't been enjoying the pregnancy quite as much as the  
17 others, and I need to go take care of her today. So thank  
18 you.

19 COMMISSION CO-CHAIRPERSON HAUCK: Please do that.

20 PANEL MEMBER GUARDINO: You can all send gifts to  
21 the child, thought, when --

22 (Laughter.)

23 COMMISSION CO-CHAIRPERSON HAUCK: Roxanne, you  
24 want to introduce yourself?

25 PANEL MEMBER GOULD: Sure. Thank you. He's a



1 tough act to follow, I might need to borrow his props.

2 That's okay, Carl.

3 Thank you, Co-Chairs Hauck and Kozberg. I am  
4 Roxanne Gould, with the American Electronics Association.  
5 We appreciate the opportunity to speak today about the CPR  
6 report but, more importantly, about the particular area that  
7 involves California's Software Procurement Policy.

8 AeA is the world's largest high technology  
9 association, we have more than 3,000 members, who employ  
10 approximately 1.8 million employees. Our membership is  
11 comprised of companies that provide both open source  
12 software, as well as proprietary or commercial software, as  
13 well as the platforms that they run on.

14 We, therefore, are here today with great interest  
15 in California's Software Procurement Policy, and hope that  
16 our experience and views will lend to the creation of a  
17 well-conceived policy that will allow the freedom of choice  
18 that best serves the citizens of California.

19 I'd like to begin with emphasizing that we fully  
20 support the process the CPR report has gone through, and the  
21 objective that you are seeking. We also agree that  
22 government resources should be utilized in the best possible  
23 way, for the best possible outcome, and showing preferences,  
24 we do not believe, is in the best interest of California.

25 We argue that the best use of software on

1 government systems can help secure such efficient use of  
2 government resources, as well.

3 We agree that both commercial and open source  
4 software are vital components of the software market place,  
5 and having choice among the wide selection of software is  
6 vital to assuring important government procurement  
7 objectives.

8 We have concerns, however, that the CPR report's  
9 emphasis on open source software, or OSS, as it's referred  
10 to, I believe, in the report, does not provide a balanced  
11 picture of the software market place and suggests an implied  
12 preference in doing so, that could lead State agencies to  
13 make poor procurement decisions.

14 The CPR report assumes that OSS, or open source  
15 software, is a less costly alternative to commercial  
16 software, yet the best way to achieve the efficient use of  
17 State resources is through a highly competitive procurement  
18 process that seeks to obtain the best value for the  
19 taxpayer's dollars.

20 In determining the value of a particular software  
21 product, the State must consider the total cost of  
22 ownership. This concept comprises many elements, one of  
23 which is the licensing fee, but that constitutes less than  
24 ten percent of the overall cost. Other important factors  
25 include cost of training, maintenance, repairs, and

1 upgrades.

2           It is not uncommon for open source software to  
3 actually amount to a more costly product than the commercial  
4 product, that is also available and should be considered.

5           The value of any software is determined by the  
6 quality of the product delivered to the end user.  
7 Qualitative components of value include reliability,  
8 functionality, security, availability, and interoperability.

9           Thus, any cost benefit analysis of a software  
10 product should include these qualitative considerations in  
11 addition to the various cost inputs that compose the total  
12 cost of ownership.

13           Finally, a very important consideration is the  
14 flexibility that the State achieves through the preference  
15 for software that is based on open standards, not to be  
16 considered with open source software.

17           This ensures the State the ability to substitute  
18 products in the future, without the fear of being locked  
19 into any one particular technology.

20           The report also suggests that open source software  
21 necessarily is more secure due to the scrutiny that it  
22 receives from the many eyes that are looking through it.  
23 However, any information technology security expert will  
24 tell you that all software, open source or proprietary, is  
25 susceptible to security challenges. Only a combination of

1 fire wall, anti-virus protection, and timely installation of  
2 patches can truly provide a reasonable degree of security to  
3 any software program.

4           The key is not just how many people review the  
5 code for initial vulnerabilities and, as a matter of fact,  
6 in the commercial software arena their makers also have many  
7 layers of eyes reviewing and testing the initial code, but  
8 rather how security is approached and should be dealt with  
9 holistically.

10           There are many factors which impact the security  
11 of technology and how that software is licensed is only one  
12 consideration. You must also look at the culture and  
13 confidence of the specific developers involved. Rather than  
14 blindly assuming one model is superior, each product needs  
15 to be evaluated to ensure that proper systems are in place  
16 to mitigate those risks once the software is deployed.

17           The report highlights the advantages of software  
18 customization, without discussing the attendant pitfalls.

19           I saw two minutes, you're making me nervous over  
20 there.

21           The report states that the open source code offers  
22 organizations the flexibility to modify the code, as needed,  
23 for specific uses. Although this feature may be beneficial  
24 in certain applications, in some contexts the alteration of  
25 source code could carry the potential to significantly

1   impede consistent system operability and functionality.

2               When performed incorrectly, customization may  
3   result in increased costs in the form of additional services  
4   and compromised security.  Such vulnerabilities make IT  
5   systems less stable and less reliable.

6               The past three decades have seen a movement toward  
7   greater standardization for the very purpose of avoiding the  
8   problems typically associated with customization.  Again,  
9   this is not to suggest that customization is necessarily  
10  problematic, we simply emphasize that a technology neutral  
11  procurement policy would favor such characteristics only  
12  when they are consistent with the specific IT objective at  
13  hand.

14              Finally, the report ignores the incentives for  
15  innovation offered by the commercial software world.  Over  
16  the years, software development has become a highly  
17  productive industry, generating billions of dollars in tax  
18  revenue for our country's and our State's federal  
19  treasuries.

20              This success is due in no small part to the effort  
21  of commercial software developers, and by availing  
22  themselves to intellectual property protections, these  
23  developers realize appropriate incentives to continue the  
24  cycle of innovation.

25              As in any commercial environment, the market will

1 achieve optimum efficiency when it is allowed to function on  
2 the basis of free and open competition. Any preference for  
3 a particular development or licensing model will only impede  
4 that objective in favoring certain products, without regard  
5 to whether the market would choose a more efficient  
6 alternative.

7           We have serious concerns that by suggesting the  
8 State agencies, broadly, may benefit from using software  
9 developed under the open source method of development, the  
10 report expresses a distinct preference and encourages  
11 decisions not based on objective criteria.

12           By contrast, a competitive merit-based and  
13 technology neutral procurement system, utilizing open  
14 standards, will be the most efficient result and the best  
15 course for this indeed to take.

16           Thank you.

17           PANEL MEMBER BROWN: Good afternoon. For the  
18 record, I'm Vince Brown, Chief Operating Officer for State  
19 Controller, Steve Westly. And the Controller would like to  
20 thank the Governor for authorizing the CPR study and thank  
21 this Commission for the work it's doing, and for the  
22 opportunity for me to testify today.

23           As the State's Chief Fiscal Officer, the  
24 Controller is pleased to provide input into the Commission  
25 regarding the State's fiscal system.

1 I also note that he has a policy team reviewing  
2 the CPR and may submit recommendations to the Commission at  
3 a later date.

4 Based on the finding in "Keeping the Books," the  
5 Controller supports CPR recommendations SCO 25 A and C, and  
6 SCO 38 A, B, C, and E.

7 SCO 25 concludes that California State government  
8 should replace its duplicative and numerous financial  
9 software applications with one global, statewide,  
10 centralized, enterprise application, which interfaces with  
11 enterprise asset management and procurement.

12 SCO 38 concludes that California does not have  
13 adequate financial management systems in place to provide  
14 decision-makers with the information they need to make  
15 decisions when they put together the budget.

16 The Controller supports these two recommendations  
17 and looks forward to providing leadership to transform the  
18 way the State conducts its budget, treasury, accounting, and  
19 disbursement business processes.

20 To begin the work on the replacement of the State  
21 enterprise fiscal system, the State Controller's Office will  
22 submit a budget change proposal for the fiscal year '05-'06  
23 to conduct an assessment of the State's business needs and  
24 develop a feasibility study report to replace his aging  
25 system.

1           We look forward to working with the State's Chief  
2 Information Officer, the Department of Finance, the State  
3 Treasurer, and other departments to begin this effort.

4           I also note that our CIO has been working with  
5 Clark Kelso, and other State department CIOs on technology  
6 and procurement reform.

7           For your general information, the Controller has  
8 taken a strong leadership role in advocating technology  
9 improvements in our office. Specifically, we've begun the  
10 21st century placement project that's going to replace our  
11 30-year-old human resource management system. We've  
12 implemented the California Automated Travel Expense  
13 Reimbursement System.

14           We've begun work on an Apportionment Payment  
15 System to replace the current system with a more integrated  
16 system.

17           Moreover, we will submit BCPs to replace our  
18 Unclaimed Property System and develop an automated Local  
19 Government Claim Management System.

20           The audience and the Commission may ask why do we  
21 need to replace the State's fiscal system? According to the  
22 CPR, the large number of existing financial systems is not  
23 efficient or effective, 1,800 systems costing \$2 billion,  
24 annually, to operate. The existing systems lack sufficient  
25 oversight or audit controls. Many existing systems are



1   obsolete, due to deferred maintenance. The State is  
2   dependent on diminishing staff resources to maintain and  
3   operate its systems and to ensure data integrity.

4               The decentralization of the State's system has  
5   created a cost risk, because a complete, accurate,  
6   centralized inventory of fiscal systems does not exist.

7               Systems design limitations limits their use and  
8   increases maintenance, especially for systems that commingle  
9   accounting and program functionality.

10              The State lacks a clear definition as to who is  
11   accountable for financial management and related systems.  
12   Is it the State Controller, the Director of Finance, the  
13   State Treasurer, or the State's Chief Information Officer?

14              And finally, the State lacks a strategic direction  
15   for financial management and related systems, and currently  
16   has no plans to get there.

17              In conclusion, the CPR has noted that we do need  
18   to go forward and replace our outdated system. The only  
19   concern I have with the recommendation is the timelines  
20   establish in SCO 25. In our opinion, a thorough analysis  
21   must be conducted and an FSR completed first, before a  
22   schedule is established.

23              And with that, I will conclude my remarks.

24              COMMISSION CO-CHAIRPERSON HAUCK: Okay, Vince,  
25   thank you.

1 Russ.

2 PANEL MEMBER HANCOCK: Thank you. Good afternoon,  
3 Chairs, Members of the Commission. I'm grateful to be able  
4 to add these few words of testimony to what you've already  
5 heard.

6 Russell Hancock is my name, I represent Joint  
7 Venture: Silicon Valley Network, which is an unusual  
8 organization, bringing together, in Silicon Valley, the  
9 labor community, business, local government, and the  
10 universities.

11 Our organization now, for many months, has been  
12 spearheading an effort to advocate tax and fiscal reform for  
13 California, statewide, and earlier we issued a Statement of  
14 Principles, which dovetails with the California Performance  
15 Review Report. And I have provided your staff with a copy  
16 of that, which you may want to review.

17 And in pursuing this initiative, I just want to  
18 mention that we are working with a partner organization, the  
19 Bay Area Economic Forum, which has, essentially, the same  
20 constituencies as ours, in different parts of the Bay Area.  
21 And our two organizations are at your service, willing and  
22 committed to working with you to achieve these kinds of  
23 reforms.

24 California should be pleased that Governor  
25 Schwarzenegger has initiated another major reform effort to

1 improve State government. The time is right for reform.  
2 Taxpayers want tighter controls on government costs and they  
3 want improved services. Government employees deserve better  
4 tools and a better organization to do their jobs. And  
5 business wants a climate in which it can prosper and provide  
6 jobs.

7           Unfortunately, however, our State's history of  
8 reform efforts is a graveyard of failure. But that  
9 shouldn't discourage us today. We have to find ways to  
10 overcome cynicism, political bickering, and sidestep the  
11 parochial opposition in order to get to real reform.

12           This means, however, that the Commission's  
13 recommendations, going forward, must have a strong,  
14 strategic focus and that, basically is, in a nutshell, my  
15 recommendation today.

16           It's on the level of strategy. The experience of  
17 the government of business in the 1980s and 1990s was that  
18 overly ambitious and detailed re-engineering, re-invention,  
19 or reform efforts consistently failed, often making the  
20 situation worse. What have worked are initiatives that are  
21 goal driven, with the details left to those who have to make  
22 it happen.

23           Lists of recommendations, voluminous lists,  
24 laundry lists, kitchen sink style lists, such as the ones  
25 that we have in this CPR report, usually have generated the

1 opposite effect, and this is our concern.

2 And to this end we, therefore, have five ideas,  
3 that we hope your Commissioner, the Governor and, indeed,  
4 our Legislators will consider carefully, as this vital  
5 effort moves forward.

6 Number one, we need to identify specific goals.  
7 Everyone knows that California faces huge problems.  
8 Reasonable people can agree on objectives that will reduce  
9 them. Hence, the reform debate should really focus on high  
10 level, but specific goals and strategies, rather than tools  
11 and tactics, such as we have so far.

12 The report is short on goals detailed enough to  
13 motivate and guide effective and creative implementation.  
14 For procurement, it should provide goals for total cost of  
15 ownership. Quality and service level for different  
16 categories of purchased goods and services. For IT, it  
17 should set goals for costs, benefits and service levels for  
18 various application levels.

19 Number two, address productivity more directly in  
20 operational areas. Productivity is a paramount goal of  
21 reorganization.

22 Over the last ten years, for example, the  
23 consultancy, McKinsey and Company, one of our members, has  
24 worked with public sector organizations in 50 countries, and  
25 these organizations have raised their productivity from 5

1 percent, or 20 percent, or even more. Many achieve gains in  
2 both outputs and inputs.

3 Strategic procurement, operations redesign through  
4 automation, IT and process redesign, and performance  
5 management. California should use these, too.

6 Number three, create implementation teams.  
7 Sustained, hands-on leadership will be the most important  
8 element of affecting reform. The Governor, Legislators,  
9 regional civic organizations, local government, education,  
10 labor and, certainly, ordinary citizens will have to work as  
11 a team in each area to realize the recommendations.

12 The Governor and the Legislature should  
13 collaborate to create implementation teams in each area, to  
14 find ways to meet the goals.

15 And in particular, the Governor's Office of  
16 Management and Budget should create a structure to set up  
17 high quality functional leadership and real discipline for  
18 implementing the review.

19 Number four, gauge effectiveness. The State  
20 should track accomplishment of the goals. It should measure  
21 not only cost savings, but progress in human resource  
22 issues, employee issues, and service related benefits for  
23 citizens.

24 Moreover, it should make the results easily  
25 accessible to citizens and the media. Such accountability

1 will both enhance performance and assure that reform is  
2 actually working.

3 Finally, number five, the reforms leaders, not  
4 just the Governor, need to adopt a critical path strategy to  
5 execute the reform.

6 If you haven't read it, I suggest that you look at  
7 the Little Hoover Commission's recently released report  
8 "Governing the Golden State, A Critical Path to Improve  
9 Performance and Restore Trust." I believe their "critical  
10 path" includes the major milestones to a successful reform  
11 campaign, and they have participated in or witnessed the  
12 State's earlier efforts and undoubtedly learned a great deal  
13 from them.

14 Finally, let me just say that we support this  
15 effort. We want to be helpful. The tools, the world's  
16 leading experts are here, in Silicon Valley, we'd like to be  
17 on the team. Thank you very much.

18 COMMISSION CO-CHAIRPERSON HAUCK: Thank you.

19 Gerry.

20 PANEL MEMBER GOLDBERG: At FTB we use massive  
21 amounts of data, some of you may prefer that we not have  
22 access to that data, but we do. And it is, therefore, not  
23 surprising that we need IT to get our jobs done efficiently  
24 and effectively.

25 To get the most out of every IT dollar, FTB has

1 embarked on a number of innovations over the last few years  
2 that demonstrate that benefits, on a departmental level, of  
3 much of what CPR is recommending on a statewide level.

4           And let me just list some of those for you, an  
5 enterprise architecture. Two of the components of an  
6 enterprise architecture are technical and security. And you  
7 may say "technical," what am I talking about? I'm talking  
8 about both software and hardware.

9           One of my banes was that we were bringing  
10 software, individuals were bringing software into the  
11 department and actually attempting to utilize that and it  
12 didn't fit into our overall architecture.

13           Well, with an enterprise architecture, obviously  
14 we take care of that problem.

15           So also, if you have an enterprise architecture,  
16 it reduces the number of skills sets you need from your  
17 technical staff. It also reduces the complexity of our  
18 systems.

19           Security architecture deals with, obviously,  
20 setting standards for security. And here, by having this  
21 enterprise architecture, we end up setting out our policies  
22 and procedures.

23           So that would be one recommendation I would  
24 certainly, heartily endorse.

25           A second is taking advantage of open source

1 software. Obviously, I'm in conflict with two of my co-  
2 panelists, but it is a major cost savings for the State, and  
3 we can't simply ignore it.

4 Three, we're supportive of consolidating  
5 management of our server infrastructure. At FTB, we went  
6 through two phases of server consolidation. The first phase  
7 we consolidated our e-mail infrastructure and services. It,  
8 in effect, created for us an industrial strength product, it  
9 reduced personnel cost, and it gave us a full tolerant  
10 infrastructure.

11 Phase two of that consolidation reduced the total  
12 count of our services, it resulted in a cost saving, over a  
13 five-year period, of \$5 million.

14 A fourth recommendation that I would endorse would  
15 be reducing procurement costs while, obviously, improving  
16 results. The Franchise Tax Board pioneered the use of  
17 performance-based procurement, and Clark spoke to that in  
18 his comments, earlier this morning.

19 And essentially, performance-based procurement  
20 looks to the results and doesn't focus on the  
21 specifications. And in effect, as Clark indicated, what we  
22 do is we say this is the results we want, to vendors, and  
23 they then propose as to how they will reach that result.

24 It lowers risk for the State, it provides a very  
25 high quality. It lowers pricing. And obviously, it can, in



1 fact, increase the overall benefits to the State.

2 We would also encourage implementing strategic  
3 sourcing. And again, it allows us to aggregate purchases  
4 for volume discounts. We obviously use this at the FTB. We  
5 use common purchasing specifications, negotiate department-  
6 wide contracts.

7 Again, this was another bane of my existence,  
8 where I actually had division chiefs going out and trying to  
9 negotiate their own contracts, and failing to see that  
10 someone else within the department was attempting to do  
11 something fairly similar. So now we have department-wide  
12 contracts.

13 Maximizing our buying power through buying, in  
14 effect, commodities, rather than customized products. And  
15 also, utilizing cooperative purchasing programs.

16 A fifth item that I would point out is recognize  
17 the need for strong governance. This morning I spoke of  
18 governance, overall governance within the FTB. That was an  
19 outgrowth, quite candidly, of our IT governance that we  
20 initiated several years ago. In effect, we brought all the  
21 division chiefs together and said, look, we need to start  
22 governing IT on an enterprise level. We need to improve the  
23 speed of our decision making. We need to be able to  
24 prioritize properly. We need to develop projects on an  
25 overall, business-wide perspective, and we must be able to

1 provide broad project management consistency.

2           And finally, I would also like to comment with  
3 regard to execution of projects. One of my concerns has  
4 been there are many, many good ideas. But what I find,  
5 whether it be in IT, or elsewhere, it's the ability to  
6 execute those ideas that really counts.

7           And to that end, I think we need to endorse a very  
8 strong project management framework subject, obviously, to  
9 an enterprise architecture.

10           We also need to address such things as redundancy  
11 and security.

12           With that, I thank you and I'll be happy to answer  
13 your questions.

14           COMMISSION CO-CHAIRPERSON HAUCK: Thank you,  
15 Gerry.

16           Questions? Mr. Canales.

17           COMMISSIONER CANALES: Thank you, Co-Chair Hauck.

18           A question for Roxanne Gould. I wanted to probe  
19 this open source issue, because it's one that has been  
20 mentioned. I'm sorry that Carl had to leave early, and it's  
21 one where obviously there's disagreement on the Panel.

22           I guess, specifically, what I wanted to ask is  
23 you've made the case, and I think Carl made the same case,  
24 that what you're suggesting is it would be important to  
25 maintain openness about which option you pursue, is it open

1 source, is it a commercial product.

2           What I want to understand, if you can push your  
3 testimony a little further, is the issue of any concerns you  
4 would have about going down the open source path? So it's  
5 not simply the issue of we should be open and let the market  
6 decide, and be competitive, and not have a predisposition  
7 toward one or the other, what I'd like to understand from  
8 you, given your expertise on this issue, is whether you  
9 would have concerns if the State elected to go down the open  
10 source path with respect to issues of security, quality,  
11 total cost, issues about customization that you referred to  
12 in your testimony?

13           PANEL MEMBER GOULD: Sure. And you keep in mind  
14 that I have members on both sides of the issue. We have  
15 open source members, as well as commercial.

16           And I guess my concern that I would have with the  
17 State solely focusing on open source, or showing a  
18 preference to open source, is that in doing that you're  
19 precluding all other alternatives. And so the open source  
20 alternative that you are obligated to use, as a result of  
21 the preference, could be far more expensive, it could be --  
22 open source, by virtue of what it is, it's called "free."  
23 It's not because of no cost, necessarily, because some open  
24 source software does have a cost at the outset, it's because  
25 of freedom. It means that others can actually alter the

1 code, and that you can continue to alter it, and continue to  
2 alter it.

3 And what that could result in is that it isn't  
4 necessarily someone with the best intentions altering the  
5 code, and so you might have a situation where you don't want  
6 to allow someone, who might have hacking incentives, or  
7 other evil ideas, to have the possibility of altering the  
8 code.

9 And so you should consider all options is  
10 basically what we're saying. And if you show a preference,  
11 you could end up costing the State money, you could end up  
12 with interoperability problems, if you choose even to go for  
13 the preference of commercial. In forcing one version,  
14 you're precluding all other options and, therefore, it could  
15 end up hurting the State both in cost and value citizens get  
16 at the end of the day.

17 COMMISSION CO-CHAIRPERSON HAUCK: David.

18 COMMISSIONER DAVENPORT: Yeah, this is to any  
19 member of the Panel. In the IT area, you know, one school  
20 of thought is that this should not be treated as a highly  
21 specialized, centralized function, run by IT guru's, which I  
22 think a lot of organizations sort of started with, but by  
23 today it should be treated as more of a fungible product, it  
24 should be a resource that various units plan and deploy,  
25 just like they deploy money, people, and other resources.

1           So my question is, does any member of the Panel  
2   feel that this report moves too much toward a centralized IT  
3   model or, as I've been hearing people maybe say today, on  
4   the other side, is California State government just so big,  
5   so decentralized, so far behind in enterprise-wide IT, that  
6   that really is not a risk?

7           PANEL MEMBER BROWN: Let me take a crack at that.  
8   We strongly support the notion of a CIO at the Cabinet  
9   level, within the Governor's Office.

10          Technology is only a tool, but we believe you have  
11   to have that input. The problem that has occurred in the  
12   past is that IT has driven the decisions. In this day and  
13   age, the business has to get out from there and put IT in  
14   the support role. So you have to have a partnership between  
15   the business that's going to use the tool, and IT at the  
16   same time.

17          Again, I also think we need to have some  
18   centralized standards. Given some of the failures that the  
19   State has experienced with technology projects, a lot of  
20   that was due to a lot of standards not being in place for  
21   project management, training of the staff, other components,  
22   the procurement process, you know, deviating all over the  
23   place.

24          So I do think that you do need, at this particular  
25   point, a strong, centralized role by a CIO at the Cabinet

1 level.

2 COMMISSION CO-CHAIRPERSON HAUCK: Dale.

3 COMMISSIONER BONNER: Yeah, this question is  
4 for -- nice to see you back, Mr. Goldberg, or Mr. Brown,  
5 either of you could address this, or anybody who knows.

6 For the benefit of those of us up here, and in the  
7 audience, one thing that keeps running through my mind is  
8 the fact that in the Executive Branch, of course we have  
9 three branches of government. But in the Executive Branch,  
10 that particular branch is made up of a number of different  
11 constitutional officers, you know, the Governor, the  
12 Attorney General, the State Controller.

13 The Franchise Tax Board is not one constitutional  
14 office, but they're separately elected.

15 And it didn't come through clear to me, in all of  
16 the discussion we've had about consolidation and all the  
17 statewide IT functions, as to whether if this Governor, or  
18 some future Governor got the house in order, so to speak,  
19 and did all this consolidation, would it necessarily include  
20 the systems that you administer at the Controller's Office,  
21 and those you administer at the Franchise Tax Board, and  
22 those administered by other constitutional officers, or do  
23 we have some risk that we could do everything recommended in  
24 this report and still have a number of different systems  
25 operating throughout the Executive Branch?

1           PANEL MEMBER GOLDBERG: I think the answer to your  
2 question is that even if we did this consolidating that's  
3 recommended in the CPR report, you'd still have data centers  
4 that are outside of the consolidated entity, and that may,  
5 in fact, well be desirable.

6           For example, I would foresee that the Franchise  
7 Tax Board, which has its own data center, would probably  
8 remain outside for a variety of reasons, not the least of  
9 which is we use IRS data and one of the major concerns would  
10 always be the security of that IRS data. If, at any point,  
11 that were imperiled, we could lose access to it.

12           While, that obviously could be addressed in a  
13 variety of technical ways, I just toss it out as  
14 illustrative of the type of issues that arise. The  
15 Department of Justice would have similar security issues, so  
16 they'd want, in all likelihood, to maintain their system  
17 outside of the consolidated centers.

18           PANEL MEMBER BROWN: Let me address that. I think  
19 one of the keys, and I agree with Gerry on this, you're  
20 probably going to have some data centers outside this.

21           But in the situation that the Controller, and the  
22 Department of Finance, and the State Treasurer face, that  
23 would be an ERP system that each of us would likely have to  
24 have a piece, and that we would need strong leadership to  
25 ensure that all the different constitutional officers got

1 along. So that, in and of itself, is a challenge.

2 Other departments are going to have their own  
3 fiscal systems, obviously, but they have to have the  
4 capacity to integrate into a statewide ERP system. And the  
5 modules likely would be the budget system, the State  
6 treasury, the accounting system, the auditing system, and  
7 the disbursement system. But we still have to get the  
8 electronic feeds from other agencies.

9 And let me give you an example. As a former  
10 Deputy Executive Officer at CalPERS, several years ago we  
11 implemented Peoplesoft, financials and HR, and we wanted to  
12 electronically transmit our information to the Controller's  
13 office. But because their system is obsolete, we had to  
14 download our information, put it on paper, and manually send  
15 it to the Controller's office to be processed. That's the  
16 type of a problem that's been around for decades.

17 And we have to act now because the staff is going  
18 to be retiring, nobody knows how to maintain these systems,  
19 and the State is at great risk. It was quite scary, when  
20 the sourcing groups came over and asked for data so that  
21 they could figure out we could, by using the economies of  
22 scales, and we had to send them to the archives to look in  
23 paper. So it's a very, very serious situation that must be  
24 addressed shortly.

25 COMMISSIONER JELINCIC: Vince, I would get in



1 trouble if I didn't say the Controller's office needs to  
2 move to the SDI program.

3 PANEL MEMBER BROWN: But J.J., it's not scheduled  
4 for implementation.

5 COMMISSIONER JELINCIC: I know, but I would still  
6 get in trouble.

7 But seriously, as we look at consolidating all of  
8 this data, obviously the security issue becomes more and  
9 more important.

10 I represent a group that had, you know, their  
11 names and social security numbers exposed. We found out  
12 about it well after it happened.

13 I was wondering if you can talk about how we deal  
14 with some of the security issues as we consolidate, really,  
15 these databases and structures?

16 PANEL MEMBER BROWN: Well, you're probably,  
17 specifically, more talking about the payroll system, the  
18 21st century project that we've underway. And as we go  
19 through that project, there will no longer be social  
20 security numbers, employees will have a standard ID number,  
21 so it doesn't link to the social security. So that's how  
22 that security problem is going to be resolved.

23 As we go to accounting systems and budget systems  
24 that is one of the major hurdles that has to be overcome and  
25 that would take quite a bit of analysis to ensure that you

1 had the security systems in place as you go through the  
2 development of the project. But that is one of the key  
3 components that always is part of the FSR as you go forward,  
4 and how are you going to make sure that the data is secure?  
5 Is data a hundred percent secure? No. You've got hackers  
6 every day. I mean, all you need to do is go talk to the IT  
7 folks over at PERS, somebody is trying to get in every  
8 single day, and some days they may be successful.

9           So I'm not going to say here there's a hundred  
10 percent secure environment, because there is not, but what  
11 you have to do is manage the risk and mitigate the  
12 opportunities for hackers, and other folks, to try to get in  
13 your systems.

14           Quite frankly, paper information is riskier than  
15 the technological information. So that's something that you  
16 need to look at, as well.

17           COMMISSIONER OLSEN: Thanks, Bill.

18           Vince, there was one comment you made in your  
19 testimony that really caught my ear.

20           PANEL MEMBER BROWN: I saw you roll your eyes,  
21 Steve.

22           COMMISSIONER OLSEN: Well, it was something about  
23 lack of adequate controls and that, in a post-Sarbanes-Oxley  
24 role, and hearing the statement from the State CFO's  
25 representative concerns me, and I think it may have a

1 bearing on the way in which the development or consolidation  
2 of these systems or new systems might proceed.

3 Right now, does the jail reside in the  
4 Controller's office, or is that CalSTARS? What's the  
5 official book of record?

6 PANEL MEMBER BROWN: Well, there seems to be a  
7 dispute, as CPR points it out.

8 COMMISSIONER OLSEN: Well, that's an interesting  
9 question, and I think that's kind of the point here is that  
10 there is more involved in this issue than simply a  
11 technology strategy.

12 PANEL MEMBER BROWN: Right.

13 COMMISSIONER OLSEN: There's a very important  
14 organizational prerogative that has to be worked through  
15 here to determine, in fact, what the roles and  
16 responsibilities are. And I suppose they could be disbursed  
17 as long as they were clear. I wouldn't think it would be  
18 necessarily impossible to have one agency in charge of  
19 payroll --

20 PANEL MEMBER BROWN: Oh, absolutely.

21 COMMISSIONER OLSEN: -- one in charge of  
22 procurement, and all that feeding into the general ledger.  
23 But if there is some sort of question as to what the  
24 official book of record is, and who owns it, then --

25 PANEL MEMBER BROWN: Well, you know, from a GASB

1 perspective, I would say that the CAFR is the official book  
2 of record for the State.

3 COMMISSIONER OLSEN: The what?

4 PANEL MEMBER BROWN: The CAFR.

5 COMMISSIONER OLSEN: Yeah.

6 PANEL MEMBER BROWN: I would say the CAFR is the  
7 official book of record. And that's what we use in all our  
8 borrowing and debt entrees.

9 COMMISSIONER OLSEN: Yeah.

10 PANEL MEMBER BROWN: And to your point, I agree a  
11 hundred percent. You know, it's not envisioned all these  
12 various modules would reside in the Controller's office. I  
13 mean, the budget piece should be at Finance, the treasury  
14 piece should be at the Treasurer's office. We should have  
15 the accounting functions, and the audit functions, and  
16 disbursement. And procurement could be at General Services.

17 COMMISSIONER OLSEN: But I'm also, I would be  
18 correct in stating that there wouldn't be much point in  
19 implementing an enterprise-wide financial system, unless you  
20 did the same thing with the procurement system and had your  
21 payroll in place.

22 So this is a simultaneous equation that has to be  
23 solved, all at once, or sequentially, in some planned way.  
24 How much did you spend on Peoplesoft at CalPERS?

25 PANEL MEMBER BROWN: I think we spent \$40 to \$50

1 million over a five-year period.

2 COMMISSIONER OLSEN: Okay, can I scale that up? I  
3 mean, I'm trying to get a sense here of what the ROI on this  
4 thing is, and I've got the sinking feeling, as important as  
5 it seems to be, because of the obsolescence of the existing  
6 system, that it might not be as high as what we would see on  
7 the consolidation of the infrastructure, where I could see  
8 that through the consolidation of the data centers, the  
9 information technology backbone, e-mail systems could  
10 produce some pretty hard savings in a relatively short  
11 period of time.

12 But this thing sounds absolutely huge to me.

13 PANEL MEMBER BROWN: Oh, it would probably be one  
14 of the largest undertakings that the State has ever done.  
15 And as far as the ROI, until you do the analysis, you're not  
16 really going to be sure. But I, just from my gut, I  
17 probably would agree it's not going to be that significant  
18 of savings. There's a lot of redundancy.

19 COMMISSIONER OLSEN: I mean, this is not --

20 PANEL MEMBER BROWN: You already said the "B"  
21 word, Steve.

22 COMMISSIONER OLSEN: Yeah, I said the "B" word.  
23 This is a ten-digit number we're talking about here.

24 PANEL MEMBER BROWN: Yeah, and I'll use an  
25 example, the 21st century project, which is replacing the

1    outdated payroll system, you know the ROI on that is  
2    probably 60 to 70 employees and the project costs are  
3    probably in the neighborhood of \$70, \$80 million dollars.

4               COMMISSIONER OLSEN:   Okay.

5               COMMISSIONER GOULD:   I'm going to follow up a  
6    little bit on something that Gerry, I think you mentioned  
7    first, and that's the execution question.   And I guess I was  
8    struck by the size of some of the projects that are being  
9    discussed here and I want to make sure that I have a clear  
10   idea, from the experts, on is there a plan of execution that  
11   can be agreed upon, that could be contained in this report,  
12   that would be helpful in ensuring success?

13              And I guess I think of the Child Support System,  
14   that Mr. Goldberg, you now have the honor of working on.  
15   Mr. Brown has inherited a payroll system.   I mean, these are  
16   long-standing problems and these are massive systems.

17              And when you talk about an integrated financial  
18   services system, I get that same reaction that Steve did, is  
19   that that may be the giant one that would be a tremendous  
20   challenge.

21              And I look at these things and I recognize that  
22   when the State has a failure in a system, it is huge news.  
23   We have had some notable ones.   When we have successes, they  
24   tend to be very quiet.   And it's the same thing in the  
25   private sector.   You don't hear about a Bank of America

1 system failure, but you certainly hear about it at the State  
2 because these are taxpayer dollars and people are sensitive.

3 I guess what I'm concerned about, with these  
4 massive projects that are being contemplated, is there,  
5 within this report or in your mind, a set protocol or an  
6 approach that could provide more reliability and success?  
7 Because the risk of failure, you know how chilling it is for  
8 the political body and the public when there is a notable  
9 failure.

10 So give me your sense of what the right protocol  
11 is to accomplish things, given the massive resources  
12 required?

13 PANEL MEMBER GOLDBERG: Russ, that's a very, very  
14 difficult question to answer. But let me just refer you to  
15 what we're currently undertaking, namely implementing the  
16 Child Support Automation System. This is a multi-billion  
17 dollar system and it is going very, very well.

18 So I think what I'm saying to you is the  
19 ingredients are there to make all of this happen, but you  
20 have to be very, very cautious and very deliberate in  
21 attempting to put things together.

22 It is not easy. It doesn't come about simply  
23 because you consolidate. The amount of time we have spent  
24 planning the automation effort is just humongous. It just,  
25 quite honestly, blew my socks off when I realized that it

1 was a multi-year process to simply plan for the project.

2 These are huge undertakings. And as I said, I think we're  
3 proceeding down a path that will ultimately lead to success.

4 But trying to identify what will make this, why is  
5 this going to be successful, where others have failed, the  
6 ingredients are there, but pulling them out and putting them  
7 all together is not, as I said, not an easy task.

8 And I know what I'm trying to grasp at is, to some  
9 extent, straws, but I think the elements are there.

10 PANEL MEMBER BROWN: Let me try to respond, Russ,  
11 to the execution issue. Key to any technology project is  
12 strong leadership, and that has to come from the top, the  
13 Governor, the Controller, the Treasurer, if this thing is  
14 even going to happen.

15 If you don't have leadership and all parties  
16 agreeing on the direction, you're not going to succeed.

17 Another aspect, as Gerry points out, is you have  
18 to allow for adequate time for planning and doing a  
19 thoughtful analysis. So many times projects at the State  
20 level have been given a deadline that they're going to meet,  
21 before you do an analysis, and that's a recipe for failure  
22 right out of the gate. So that has to be part of that.

23 Then, if there is that strong leadership, you're  
24 really going to have to sell it to all the business partners  
25 that will be involved, and that's most of the State



1 departments, the big players, those sorts of things.

2 As you remember, CalSTARS, you know, everybody got  
3 exemptions so, you know, they only got 60, 70 percent of the  
4 agencies putting their data in there. So those are some of  
5 the key components.

6 And at the end of the day you've still got to sell  
7 it to the Legislature, because they appropriate the funds.  
8 And part of that process really revolves around educating  
9 them on how long this project is going to take. There's  
10 always risk in IT projects, there's always going to be  
11 problems. You've just got to manage the risk. If there are  
12 serious issues, you need to raise them immediately and  
13 mitigate. And if you have that foundation when you start a  
14 project, the chances of your success are much better than if  
15 you try to hide things that are going wrong or if you try to  
16 say, oh, yeah, we can implement this in three or four years,  
17 when that's not going to happen.

18 So I think putting some of those components in, if  
19 that was part of this report on how to execute a successful  
20 project, those are some of the things that I would  
21 highlight.

22 COMMISSIONER DANDO: Mr. Chair, I had two  
23 questions, and I'd like to maybe have Mr. Goldberg respond.  
24 We heard two of our speakers talk about the disadvantages of  
25 open source. You were the only one that spoke to the

1 positive, but you didn't give any of your reasoning of why  
2 you thought there was an advantage of going with open  
3 source. So I'd like for you to respond to that.

4 And then the second question is, is there any  
5 advantage or disadvantage of using open versus commercial,  
6 when we're trying to develop interoperability throughout the  
7 State?

8 PANEL MEMBER GOLDBERG: You're talking to a CPA  
9 and not a technologist, unfortunately.

10 But with regard to open source, the fundamental  
11 reason to go open source, quite honestly, is cost. And  
12 obviously, you've heard from my co-panelists that they would  
13 argue that there are costs to open source that sometimes  
14 aren't that obvious when you're making the purchase. And  
15 certainly, I would not quarrel with that. But, nonetheless,  
16 I would say the State has an obligation to look at open  
17 source software because of the possibility of the cost  
18 reduction.

19 With regard to interoperability --

20 COMMISSIONER DANDO: Could I just ask one follow-  
21 up question on that?

22 PANEL MEMBER GOLDBERG: Sure.

23 COMMISSIONER DANDO: So then when you were talking  
24 about cost of open source, you were looking at the initial  
25 cost, not the total cost?

1           PANEL MEMBER GOLDBERG: Well, in fact, I would  
2 argue that we are probably looking at both, total cost and  
3 initial cost. In effect, depending on -- well, let me stop  
4 there.

5           COMMISSIONER DANDO: With regard to  
6 interoperability?

7           PANEL MEMBER GOLDBERG: Interoperability, I think  
8 we're going beyond my technical ability to respond to you,  
9 quite honestly.

10          COMMISSIONER DANDO: Maybe Roxanne, would you like  
11 to?

12          PANEL MEMBER GOULD: Sure. And actually, I would  
13 not argue that open source software is a bad solution or a  
14 bad avenue to pursue. And in fact, his example is one in  
15 which they did save money as a result of using open source  
16 software.

17           It all depends and, really, we need to get away  
18 from looking at the way the software was actually created  
19 and look at what the software provides to the end user. And  
20 so in some instances, it all depends on the bells, and  
21 whistles, and tweaks that you need. And open software, in  
22 some instances, may require a ton of follow-up work or  
23 maintenance, highly costly follow-up, and in some instances  
24 not.

25           And so that's why I say look at all of them. And

1 in fact, I think most of the major users are heading toward  
2 the middle, a movement toward the middle, where they're  
3 using a hybrid. They're using some open source, some  
4 commercial, they're blending them. And they make sure that  
5 they do work together, but it is a little bit of all  
6 options.

7 And if we show a preference to just open source,  
8 we're getting rid of that possibility, which is where the  
9 industry is going.

10 COMMISSIONER FOX: A little change of pace here,  
11 but couldn't let Gerry go without commenting on the issue  
12 that I think that this Commission, here, is most about, and  
13 that is elimination of boards and commissions and  
14 consolidations of agencies. And that would be the  
15 consolidation of your agency with the Board of Equalization  
16 is probably one of the big, high stars on that list, and  
17 with others, into one large taxation agency.

18 I know that this is an issue that's been on  
19 people's minds, who think about government reform for, oh,  
20 two or three decades now. But the CPR says this time we  
21 really mean it, and we're going to pull it off.

22 So I'd like your comment on the consolidation of  
23 the tax agencies into one agency, please?

24 PANEL MEMBER GOLDBERG: I think, with regard to  
25 the recommendations that the functions of EDD's tax branch,

1 unemployment insurance, disability insurance, and some of  
2 the collection functions of DMV be consolidated with the  
3 Franchise Tax Board. To me, that makes a whole lot of sense  
4 and is doable over a reasonable period of time.

5 I think, however, the issue of governance is of  
6 more concern and it raises a number of concerns in my own  
7 mind, one of which is very relevant to our discussion today,  
8 namely FTB has been a very, very innovative department. I  
9 say that without attempting to pat myself on the back,  
10 because I think that is in fact a factual statement.

11 And I am very concerned that if we are put under  
12 an agency that, in effect, is the Board of Equalization,  
13 that we may lose that innovative potential.

14 A second concern I would have, quite candidly, is  
15 that right now a representative of the Department of Finance  
16 is on our Board. It strikes me that the Administration  
17 would want to have someone on this Tax Commission. As is  
18 currently proposed, the only members of the Tax Commission  
19 would be the Controller and the four members of the Board of  
20 Equalization.

21 So in effect, the Administration, the Governor  
22 does not have any direct influence over the tax system.  
23 That just does not strike me that that is good government.

24 So those are just two of the reasons that I would  
25 cite for you as to why I have concerns. I'm not saying I

1 necessarily oppose, but I do have, I think, very strong  
2 concerns with regard to the proposal that is contained  
3 within the CPR document.

4 COMMISSION CO-CHAIRPERSON HAUCK: Gerry, have you  
5 responded in the past to proposals to create a Department of  
6 Revenue?

7 PANEL MEMBER GOLDBERG: Indeed, I have. I think  
8 I've probably responded over the years to about every  
9 iteration imaginable.

10 A Department of Revenue, in my own mind, makes  
11 more sense because, again, there are a lot of examples of  
12 successful Department of Revenues throughout the country. A  
13 Department of Revenue would report directly to the Governor.

14 Another possibility is a different type of Board,  
15 a Board which would be comprised, let us say, of the  
16 Governor, the State Controller, and the State Treasurer, all  
17 three of them obviously having a financial interest, all  
18 three would serve on the Franchise Tax Board.

19 If you were to couple that with, perhaps, and I'll  
20 be quite outspoken, and removing the Controller, perhaps,  
21 from the Board of Equalization, then you have an independent  
22 tax collection agency from the adjudicatory body, the Board  
23 of Equalization.

24 So I'd say, yeah, I certainly think a Department  
25 of Revenue makes sense, or a different type of Board makes

1 sense. Certainly, in my own mind, more sense than what is  
2 proposed in the CPR.

3 COMMISSIONER FOX: I'm glad we're we're still  
4 chasing the holy grail of integrated data information,  
5 that's been around since the steam-driven days of the  
6 technology. I remember Gotran and Fortran. But that  
7 will-'o-the-wisp is still out there. I have no doubt that  
8 the technology will grapple with it and you'll get there.

9 But there's two other parts of the equation that  
10 I'm wondering if anybody at the State has looked at. First,  
11 anytime we talk about a State system, invariably, either in  
12 the reporting or in the data output side, local governments  
13 are going to be involved in that, and have they been  
14 involved in any of the analysis.

15 And particularly, I think for you, Mr. Brown, in  
16 the State Controller's office, as somebody who uses your  
17 data very frequently, and would dearly love to see it  
18 online, in an Excel format, downloadable, and that's a paid  
19 political advertisement, as opposed to going through the  
20 State Controller books. Has anybody looked at that element  
21 of it?

22 And then second, it's perhaps appropriate that you  
23 and Mr. Goldberg are at the opposite ends of the spectrum  
24 here, but in terms of integrating both the databases,  
25 whatever form it takes, and as complex as we've just

1 discussed here, is there any view, or anybody who's looking  
2 at that, in terms of the people who want to have access to  
3 it outside the State government. And in this case,  
4 everybody from business that would perhaps need demographic  
5 data, social science researchers, the public at large, or  
6 anybody else who wanted to be involved in the process?

7 PANEL MEMBER BROWN: That's a mouthful. We do  
8 have a couple of projects, one is starting and one is  
9 contemplated as it relates to local government data. We are  
10 in the process of starting an apportionment system for  
11 getting the information, the payments, and doling the money  
12 out to the locals, so that project has started.

13 We are also looking at a smaller scale project to  
14 allow making your mandate claims over the internet, we're  
15 looking at that, as well.

16 We have not gotten to the report database. That's  
17 a lower priority right now, because we've got so many  
18 projects going, but we have talked about that. And if, and  
19 when, we decide to launch that, obviously we have a number  
20 of advisory committees, of local government entities that we  
21 would work with. Because if we don't get the input from our  
22 customers, you're not going to have a successful project.

23 So I mean, that obviously is on the radar once we  
24 start thinking about going in that direction.

25 PANEL MEMBER GOLDBERG: With regard to access to



1 our database, obviously there are a large number of entities  
2 and individuals who would like to access our database, for a  
3 variety of purposes, both legitimate and illegitimate.

4 But with regard to tax data, I think there is  
5 probably in the future going to be the capability for  
6 taxpayers to, in effect, authorize the Franchise Tax Board  
7 to provide W-2 information, let us say, to their tax  
8 preparer, electronically.

9 I think we're almost there today and I think we  
10 will reach that point in the relative near future. So in  
11 effect, when you subscribe to a TurboTax, in addition to  
12 downloading your information from Vanguard, from Fidelity,  
13 to help populate your return, you'll also be able to  
14 populate your return with your wage data that EDD and FTB  
15 have.

16 COMMISSION CO-CHAIRPERSON HAUCK: Okay, I think  
17 that's all the time we have for questions at this point.  
18 Thank you all for a good discussion, thank you for being  
19 here.

20 We're now going to move to the public testimony  
21 portion of our meeting. Just a few points, we are going to  
22 try to accommodate as many people as we possibly can. In  
23 the two previous hearings, we have not been able to  
24 accommodate everyone. We probably will not be able to  
25 accommodate everyone here, today, to give testimony.

1           If we don't get to you, please know that you can  
2   communicate with us either through the internet, or directly  
3   either by regular mail or directly into the CPR website, and  
4   that information is available to you out on the tables, the  
5   information tables outside.

6           Each speaker will be allowed three minutes. And  
7   our timekeeper, to my right here, will give you an  
8   indication of when you're about halfway through your three  
9   minutes, and then when you've got a minute to go, and then  
10   finally ask you to stop.

11           We will enforce and we have enforced the three-  
12   minute timeline, so as to get to as many people as we  
13   possibly can in the public testimony portion.

14           I think that covers the ground rules.

15           I'm going to tell you the first five people that  
16   we're going to hear from, who can come to the microphone.  
17   If you are one of the five people, please come up closer to  
18   the mike so you can get up to the mike immediately after the  
19   previous speaker.

20           The first five speakers are Tim Behrens, Tyler  
21   Fihe, F-i-h-e. Mike Waters. Melanie Wye, or Melanie W-y-e.  
22   And Carol Henton.

23           Now, the first speaker is Tim Behrens. Is he  
24   here?

25           MR. BEHRENS: Don't start that clock yet.

1 COMMISSION CO-CHAIRPERSON HAUCK: Please say your  
2 name and spell your last name for our court reporter?

3 MR. BEHRENS: Tim Behrens, B-e-h-r-e-n-s. Thank  
4 you, Commission, for letting me speak today.

5 I'm the President of the Association of California  
6 State Supervisors. That's a corporation that represents  
7 State employees, supervisors, managers, exempt, and  
8 confidential employees. We are the largest organization  
9 that represents State employees, over 6,000 members.

10 That is the management team in California. That  
11 is, I think, the people that I've been listening all day  
12 today to your plans, that will have to implement much of  
13 your and many of your ideas.

14 There are some problems with the management team.  
15 Ever since collective bargaining became a law in California,  
16 for the last 20 years, the excluded employee organizations  
17 and excluded State employees have been ignored by the  
18 Department of Personnel Administration.

19 The average miscellaneous excluded employee, in  
20 the past 15 years, has averaged less than two percent in  
21 their benefits and wages. It makes it very difficult to  
22 recruit, it makes it very difficult to continue to want to  
23 be a career State employee.

24 Some of the things, I think, that could be helpful  
25 are to implement many of the ideas that this Commission has

1   come up with so far. We would like to be part of that  
2   solution, but we need to have some support by this  
3   Commission to embrace the Task Force meeting, and I think  
4   you all got a copy of the exempt and excluded Employee Task  
5   Force Salary Setting, it was a year and a half project. I'm  
6   sure you all got a copy of it. If you didn't, I know you'll  
7   have it before you leave today.

8           The outcome of that year and a half project was a  
9   recommendation to create, I'm sorry, another board or  
10   commission, but this commission would be specifically  
11   empowered to establish the benefits and the pay for excluded  
12   employees, it would no longer be left up to the Department  
13   of Personnel Administration, who, in my humble opinion, has  
14   failed miserably in providing and doing anything on behalf  
15   of the management team of the State of California.

16           And in fact, the current leadership of the  
17   Department of Personnel Administration has admitted that it  
18   is broke, it needs to be fixed.

19           I believe that you have embraced some of the  
20   language in our Task Force minutes, and I hope you will  
21   continue to do that.

22           Again, I offer myself, and the members of my  
23   organization to help implement your plans. We're on board  
24   100 percent. We embrace the Baldrige plan. In fact, I work  
25   in DDS, I've been there for 39 years, and for the last eight

1 years we've been working under that particular plan and it  
2 has made a difference in the quality and quantity of all of  
3 our employees. But that starts with empowering the  
4 employees at the lowest level and building bridges between  
5 the management team and the rank-and-file employees.

6 Thank you very much. I'd be happy to answer any  
7 questions, if there are any.

8 COMMISSION CO-CHAIRPERSON HAUCK: Thank you, Tim.

9 MR. BEHRENS: Thank you.

10 COMMISSION CO-CHAIRPERSON HAUCK: And just to  
11 clarify for you, Tim, as well as others, the ideas that  
12 we're discussing here today are not ideas of this  
13 Commission. The ideas that were put forward by the  
14 Performance Review Team are the ideas that we've been  
15 discussing. It's our role to listen to your comments and to  
16 respond to the Governor.

17 MR. BEHRENS: I appreciate that. And again, if  
18 you have any questions, or we can be of any assistance in  
19 providing anymore information or data, again, I would draw  
20 you to that Salary Setting Task Force, that has a lot of  
21 information in it. Thank you.

22 COMMISSION CO-CHAIRPERSON HAUCK: We got it, thank  
23 you.

24 Tyler. Is Tyler here? Okay, Mike Waters.

25 MR. WATERS: Good afternoon, my name is Mike

1   Waters, W-a-t-e-r-s.  I'm here today as President of the  
2   California Bus Association, and I may be a singer if I don't  
3   watch out here.  The California Bus Association is a trade  
4   association representing California charter, tour, school  
5   bus, and contract motor coach companies, by promoting  
6   professionalism, safety, and integrity in the motor coach  
7   industry.

8               Our members are citizens and business leaders in  
9   the State of California.  And our interest, like those of  
10  you here, revolve around the budgetary challenges our  
11  government and the Legislature are faced with, and are  
12  hopeful that these Performance Reviews will enhance the  
13  efficiency of California's day-to-day operations.

14              Since our Association's prime focus is in  
15  passenger transportation, we see the need for improvement in  
16  a couple of areas that have been addressed in the CPR  
17  document, particularly sections SO 71, ETV 06, and GG 24,  
18  all of which relate to procurement by, one, establishing  
19  competitive sourcing guidelines for State departments and,  
20  two, reducing noninstructional cost in the K to 12 schools.

21              Under the competitive sourcing guidelines, the  
22  report recommended, and I paraphrase, the Department of  
23  General Services, DGS, or its successor, should work with  
24  all appropriate State agencies and departments to develop a  
25  competitive sourcing guide.  This guide should not only

1 focus on how and under what circumstances to contract out,  
2 it should also include guidance on other competitive  
3 sourcing strategies, and the circumstances under which these  
4 make sense.

5           The CBA and its members have, over the many years,  
6 provided contracted bus transportation to the State of  
7 California and its many employees.

8           A recent example of the need of improving these  
9 guidelines for contracting is one that involves the  
10 Department of General Services, itself. DGS has contracted  
11 out shuttle service for its employees between peripheral  
12 parking lots and DGS headquarters in Sacramento.

13           This contract, initiated over 25 years ago, has  
14 been periodically put out to competitive bid among both  
15 private bus companies and public transit agencies and, in  
16 this case, Regional Transit District and its subsidiary, in  
17 Sacramento.

18           In early 2000, DGS decided that a sole source  
19 contract, not unlike Oracle, with a federal and locally  
20 funded transit agency, Sacramento Regional Transit, was a  
21 better option than a competitively bid service.

22           The result, starting in April of 2001, is less  
23 frequent service to the State employee riders, an additional  
24 cost to the California taxpayers of over \$800,000 a year,  
25 and \$2.4 million in excess cost to federal taxpayers, a

1 percentage of which is made up of California residents.

2           How did this happen? By having one State agency  
3 sole source contract with another government agency, at a  
4 noncompetitive price.

5           I have provided documents that outline more  
6 specifics on this DGS issue and the need to repeal SB 1419,  
7 as the CPR document recommends, which would allow school  
8 districts and transit agencies to contract out and develop  
9 public/private partnerships.

10           I thank you for your time.

11           COMMISSION CO-CHAIRPERSON HAUCK: Thank you, Mike.  
12 Melanie.

13           MS. WYE: Good afternoon. My name is Melanie Wye  
14 and I'm the Coalition Manager for the Initiative for  
15 Software Choice. And I have some comments this afternoon  
16 that will probably -- some of which you've already heard  
17 today but, hopefully, I'll also have some comments that will  
18 provide you with some new thoughts.

19           The Initiative for Software Choice is a coalition  
20 of software companies and associations comprised of over 300  
21 members across the globe. Our California-based members  
22 include large IT companies, such as Intel and Autodesk, as  
23 well as a number of small and medium-sized California-based  
24 software companies.

25           Since 2001 the ISC has worked in the U.S., and in



1 nearly a dozen states, and around the globe to advance the  
2 concept that multiple, competing software licensing models  
3 should be allowed to develop and flourish unimpeded by  
4 government preference or mandate.

5           We commend the significant effort made to produce  
6 the CPR and support its overall objective to secure the most  
7 efficient use of California's resources, while delivering  
8 improved government services to its citizens.

9           We agree that California, as the birthplace of the  
10 technology revolution, should strive toward leadership in  
11 State IT management.

12           While the ISC supports and endorses the vast  
13 majority of proposals contained in chapter seven of the CPR,  
14 we must respectfully oppose subchapter SO 10. In a  
15 practical sense, the ways in which subchapter SO 10  
16 recommends exploring open source alternatives, creates a de  
17 facto procurement preference for open source software in  
18 California which, we respectfully submit, would do little to  
19 reduce your budget concerns and instead would harm the  
20 Administration of State government, taxpayer welfare, and  
21 the health of California's IT industry, the vast majority of  
22 which produces commercial software.

23           In the last two years, nearly a dozen states have  
24 considered and rejected proposals similar to this one. In  
25 fact, two years ago the California Legislature chose not to

1 take up a bill that would have mandated the government's  
2 preference of open source software in its government IT  
3 acquisitions.

4 At that time, the ISC weighed in, in opposition to  
5 the so-called "Digital Software Security Act," for many of  
6 the same reasons that we oppose the proposal at issue here,  
7 today.

8 The California Legislature, in the company of  
9 every other state that has considered such a proposal,  
10 recognized that intervening in the well-functioning  
11 California software market would cause immediate, and  
12 serious, unintended consequences for the State, its IT  
13 industry, and taxpayers.

14 The ISC strongly supports the development and  
15 adoption of all kinds of software, be it open source,  
16 hybrid, or commercial. For this reason we believe that  
17 government procurement preference policies weaken the  
18 overall IT marketplace, biasing the choice of viable options  
19 available to public authorities.

20 All software purchasers, including governments,  
21 are best served when they can select software from a broad  
22 range of products based on such considerations as value,  
23 total cost of ownership, feature set, performance, and  
24 security.

25 While subchapter 10 recognizes the importance of

1 these factors in procuring software, it recites erroneous  
2 assumptions, including that open source software is  
3 inherently less costly, more versatile and more secure than  
4 commercial software.

5 These comments have been submitted to the  
6 Commission in full written form. Thank you.

7 COMMISSION CO-CHAIRPERSON HAUCK: Carol Henton.  
8 And while Carol is approaching the mike, let's get to the  
9 next five people. Rick Auerbach, F.B. Vic, Junior, Jim  
10 Helmer, Margarita Maldonado, and Vince Vasquez.

11 Okay, Carol.

12 MS. HENTON: Good afternoon, thank you for the  
13 opportunity to appear today. I am Carol Henton, Vice  
14 President of the Western Region for the Information  
15 Technology Association of America.

16 ITAA represents close to 400 companies across the  
17 country, involved in every major facet of the IT industry,  
18 including computer hardware, software, services, internet,  
19 telecommunications and more.

20 Many of our member companies provide advanced IT  
21 solutions to the State and local marketplace, particularly  
22 California, and many are proud to make their headquarters in  
23 this great State.

24 In a statement issued on August 4th, the President  
25 of ITAA, Harris Miller, praised the new CPR report by saying

1 "Governor Schwarzenegger and his team have given IT a  
2 starring role in the remake of California's government  
3 systems. We are pleased to see the Governor's review  
4 correctly identifies the need to use IT to eliminate  
5 redundancy and increase efficiency in government operations.  
6 We agree that IT, properly aligned with State goals and  
7 objectives, pursued on an enterprise-wide basis, and managed  
8 using a comprehensive enterprise architecture will make a  
9 major difference to California taxpayers and the recipients  
10 of government services. We anticipate that as the State  
11 moves to introduce the necessary changes, agencies will  
12 leverage the formidable technical expertise and the  
13 experience of private sector IT solutions providers."

14           My remarks today are only intended to focus on one  
15 particular area, namely what seems to be a stated preference  
16 in the report for open source software in State procurement.

17           Let me say, first, that ITAA member companies are  
18 involved in every kind of software solutions, including  
19 those based on open source code, as well as proprietary  
20 software. If we have a bias at all, it is in favor of value  
21 to customers, not any particular software development model.

22           Having said that, we are concerned about the  
23 specific language in the report, which states, "departments  
24 should take an inventory of software purchases and software  
25 renewals and implement open source alternatives where

1 feasible."

2           At best, this is an unfortunate choice of words  
3 that sends the wrong signal to the State procurement  
4 community. At worst, it implies a government preference for  
5 open source solutions, that we believe is ill-advised.

6           We believe the State of California should move to  
7 open source where it makes sense, based on objective  
8 criteria, not just when it is possible.

9           When open source software is a legitimate and  
10 potentially effective approach to software development, this  
11 approach is not inherently better, nor more deserving of  
12 consideration than proprietary approaches.

13           In conclusion, as I noted at the outset, we are  
14 pleased with the many recommendations contained in this  
15 report and you can expect that we will be submitting some  
16 written comments in the weeks to come.

17           Thank you so much.

18           COMMISSION CO-CHAIRPERSON HAUCK: Thank you.

19           Rick Auerbach.

20           MR. AUERBACH: Good afternoon. My name is Rick  
21 Auerbach and I'm the elected Assessor for Los Angeles  
22 County, and I'm here representing the California Assessor's  
23 Association to speak in opposition to recommendation GG 19,  
24 which proposes to centralize the assessment of commercial  
25 aircraft.

1 I've given your staff copies of the Assessor's  
2 response and it's much more detailed, and I hope you take  
3 time to read it.

4 COMMISSION CO-CHAIRPERSON HAUCK: Rick, did you  
5 hear the comments that Larry Stone made earlier?

6 MR. AUERBACH: I did.

7 COMMISSION CO-CHAIRPERSON HAUCK: Okay, you  
8 subscribe to those comments?

9 MR. AUERBACH: Definitely.

10 COMMISSION CO-CHAIRPERSON HAUCK: Are you making  
11 other points?

12 MR. AUERBACH: I have a couple other points, yeah.

13 COMMISSION CO-CHAIRPERSON HAUCK: All right.

14 MR. AUERBACH: We are opposed to the  
15 recommendation because it is based upon misleading  
16 information and no input was received from the Assessor's  
17 Association or any Assessor. If there had been that input,  
18 the recommendation would not appear in the report.

19 However, if implemented, the recommendation will  
20 result in a much less efficient process for airlines, for  
21 counties, and for the State. It will cause increased  
22 administrative cost to the State, with very little in  
23 compensating reductions for counties, and it will result in  
24 decreased revenue to counties, cities, and schools.

25 Why would this result in a less-efficient process?

1 It's because the proposal bifurcates the assessment of  
2 airline property. In other words, under the proposal, the  
3 State would assess the aircraft and other personal property,  
4 but the counties would still assess the possessory interests  
5 and the fixtures.

6 What this means is the airlines would still file  
7 as many statements with counties as they do now, plus they  
8 would have to file additional statements with the State.  
9 And the reason for that is because the revenue resulting  
10 from the tax has to be allocated to the correct  
11 jurisdiction.

12 A little bit about the audits. Counties are  
13 required to audit statements over \$400,000 every four years.  
14 That means that counties will still audit almost every  
15 airline, plus the State, if it chooses to do audits, will  
16 also be auditing. It's a duplication and a very inefficient  
17 use of personnel.

18 I should add that the State does very few property  
19 tax audits. It's not mandated to do so by law, as counties  
20 are, even though it does assess billions of dollars in  
21 property.

22 In the last four-year cycle, counties have found  
23 in the audit of airlines \$642 million in deficiencies,  
24 resulting in over \$6 million in property tax revenue. In  
25 addition, in the most recently completed audit of a major

1     airline, our auditor found over \$100 million in  
2     deficiencies.

3             In your report it was pointed out that counties  
4     had instances of different values for the same aircraft.  
5     That is true. However, this was due to errors on the part  
6     of assessors, but also on the misreporting and inconsistent  
7     reporting from airlines.

8             Anyway, thank you for this opportunity. I assure  
9     you, if this recommendation was really an efficiency, and it  
10    was revenue neutral, assessors would support it.

11            COMMISSION CO-CHAIRPERSON HAUCK: Thank you, Rick.  
12    I believe you.

13            F.B. Vic. Is he here? Mr. Vic?

14            Okay, Jim Helmer.

15            MR. HELMER: Honorable Chairman Hauck, Madam Chair  
16    Kozberg, and Members of the Commission, my name is James  
17    Helmer and I'm the Director of Transportation for the City  
18    of San Jose.

19            Today, my remarks will focus on how technology can  
20    improve safety on our roadways. I'll start by saying that  
21    San Jose strongly supports report recommendations INF 04,  
22    requiring more performance measures in traffic operations.

23            And also, INF 12, which calls for better traffic  
24    enforcement systems on our highways and roadways.

25            California suffered 4,138 deaths on its roadways



1 in 2002. Sadly, one-fifth, or over 700 of those were  
2 pedestrians. We can make an argument that San Jose is the  
3 largest State in the union, but that would not be right for  
4 those hard figures. We need to follow the lead of the U.S.  
5 Secretary of Transportation, Norm Mineta, and make every  
6 effort to reduce casualties on our roadways.

7 Each injury, fatality, greatly impacts our society  
8 and the costs to our families and to the State are too high.  
9 Trending against national statistics, San Jose has the  
10 second safest record of pedestrian fatalities of any city  
11 over 750,000 people. Indianapolis is number one.

12 I can assure you this success is because those  
13 elected officials require all budget proposals to be backed  
14 by performance measures and desired outcomes.

15 San Jose makes significant use of technology near  
16 our schools, parks, libraries, and other pedestrian  
17 attractors, that warn motorists of unsafe driving behavior.  
18 San Jose is the only city in the State that utilizes photo-  
19 enforcement radar for speed enforcement. It's used on  
20 approximately 167 streets, or school zones, all with the  
21 prima facie speed limit of 25 miles per hour.

22 We operate the three vans and we equip them with  
23 photo radar equipment and trained civilian staff.

24 From NASCOPs inception, that's the name of the  
25 program, in 1998, we've seen significant reductions in

1 actual speeds, crashes, and frequency of complaints.

2           There are also significant cost savings associated  
3 with this type of enforcement. We do not utilize sworn  
4 officers, nor have we had to install expensive traffic  
5 calming devices on local streets, that force all motorists  
6 to slow down.

7           But currently, State law puts San Jose's NASCOP  
8 program at risk. Throughout the country states have adopted  
9 provisions allowing local and state enforcement agencies to  
10 expand the use of technology in enforcement. California's  
11 use of these innovative technologies lags far behind other  
12 states.

13           San Jose will be submitting a more comprehensive  
14 report to you on other transportation and technology related  
15 information, but right now we are convinced that greater use  
16 of technology in traffic enforcement will save lives and  
17 will save valuable resources.

18           Thank you.

19           COMMISSION CO-CHAIRPERSON HAUCK: Okay, next is  
20 Margarita Maldonado, and up third, I understand he's back in  
21 the room, is Tyler Fihe.

22           Margarita.

23           MS. MALDONADO: I'm right here.

24           COMMISSION CO-CHAIRPERSON HAUCK: There you are.  
25 Take it away, Margarita.

1           MS. MALDONADO: Hi, there. My name is Margarita  
2 Maldonado and I'm the Bargaining Chair for Unit 1 of CSEA,  
3 that represents State employees in the IT field. I have  
4 worked for the State of California for 15 years, performing  
5 various levels of work.

6           My primary responsibilities are system design and  
7 development of multiple database interfaces. The most  
8 complex database interface being the California Criminal  
9 History system.

10          State employees, who work in IT support programs,  
11 use information technology to improve services to California  
12 residents. However, the widespread experience, in both the  
13 private sector and the public sector, is that where  
14 significant IT changes are concerned what looks wonderful on  
15 paper could be a catastrophe in practice.

16          We want California's reforms to work. In three  
17 minutes I cannot provide detailed comments on dozens of  
18 complex IT recommendations, but I can offer four major  
19 themes that should guide the State as it considers IT  
20 reforms.

21          First, successful reform initiatives, seek  
22 information from the existing work force and garner their  
23 support for implementation. After you've spent millions on  
24 dysfunctional systems, it's too late to ask why it isn't  
25 working.

1           Second, major expansions in IT services to require  
2 adequate staff levels. Changes can lead to long-term  
3 savings, but change, itself, is labor intensive. Analyzing  
4 new systems, designing them, evaluating them, implementing  
5 them, training staff and troubleshooting, all of these tasks  
6 require capable personnel. The easiest way to lose  
7 incredible amounts of taxpayer dollars is to launch IT  
8 reforms on the cheap.

9           The third, where major IT acquisitions are  
10 concerned, a system of checks and balances is prudent. The  
11 Governor's office can, and should play a major leadership  
12 role, but financial decisions should require the review of  
13 another senior elected official, possibly the Controller.

14           You don't need to seek out an oracle to understand  
15 the reason for this suggestion.

16           And fourth, an outstanding California IT system  
17 should rely overwhelmingly on a dedicated, trained, and  
18 permanent State IT work force. The reason that State  
19 employees can and should deliver these services are  
20 numerous.

21           First, security, the State can screen and check  
22 its own employees. The more outsiders are involved, the  
23 more the risk.

24           Reliability. State employees are here when the  
25 people need us. Contractors are wherever they cut the best

1 deal.

2 Conflicts of interest. We're interested in  
3 systems that work for the public, not systems that work for  
4 any particular vendor or computer firm.

5 Costs. Virginia saved \$1.7 million a year by  
6 insourcing, converting IT contracts to full time State  
7 employees. In California, CSEA examined 19 IT contracts at  
8 the Department of Health Services, the average hourly wage  
9 for contractors was nearly four times the pay of State  
10 employees. Insourcing would save millions of dollars.

11 As State employees, our philosophy is do the job  
12 right. Thank you for your time.

13 COMMISSION CO-CHAIRPERSON HAUCK: Thank you,  
14 Margarita.

15 Vince Vasquez.

16 MR. VASQUEZ: Good afternoon, Commissioners. My  
17 name is Vince Vasquez, and I'm a Research Associate at the  
18 Pacific Research Institute, a nonpartisan think tank in San  
19 Francisco.

20 I'm here to make public comments on behalf of  
21 Sonja Ericson, Director of Technology Studies at PRI. Sonja  
22 wanted to express her expert opinion on SO 10, the open  
23 source software recommendation in the CPR report.

24 PRI takes no formal position on whether  
25 proprietary or open source software is better. Indeed, we

1 recognize that each system has distinct pros and cons. What  
2 we'd like to point out to the Commission is that the CPR  
3 open source analysis appears to over-emphasize the positives  
4 and almost completely ignore the potential problems and  
5 hidden costs of such a system.

6 Open source software is often free of charge, but  
7 it can be difficult to use and support costs are not free.  
8 Time spent on tech problems, because of difficulty in use,  
9 as well as the actual support costs should be more closely  
10 examined. Also, because many different people can modify  
11 open source software, special concerns arise, such as  
12 intellectual property issues.

13 For your review, PRI has submitted two articles  
14 that reflect the complexities of open source software.  
15 Ms. Ericson would be happy to answer any and all questions  
16 on this topic. Our office phone number is listed on the  
17 front page of our submitted packet.

18 Thank you for your time.

19 COMMISSION CO-CHAIRPERSON HAUCK: Okay, thank you,  
20 Vince.

21 Tyler Fihe, and while he's making his way to the  
22 microphone, the next five people are Steve Johnson, Brian  
23 Boxall, Bob Brownstein, Stephen Chuchel, and Matthew Newman.

24 Tyler.

25 MR. FIHE: Hi. My name is Tyler Fihe. I would

1 like to read you something I wrote last night.

2 Hi, my name is Tyler Fihe, I would like to read  
3 you something I wrote last night to the California  
4 Performance Review Commission. I want to talk to you about  
5 the Youth Leadership Forum that is sponsored by the  
6 Governor's Committee on Employment for People with  
7 Disabilities. I was chosen to be one of the 50 students to  
8 attend this conference in Sacramento, this July.

9 This was an amazing experience for me. I am  
10 challenged with autism and have a difficult time typing, so  
11 I use a light writer to type out my thoughts and then I read  
12 them aloud. It's a slow process, but at least I found a way  
13 to communicate. An assistant, that I trust, stands next to  
14 me and touches my arm. This helps me stay focused and in  
15 control of my body movement.

16 Very few people, like me, get an opportunity to  
17 attend a conference like I did. Can you imagine how excited  
18 I was to have been selected for this experience. I was  
19 fortunate to hear lots of adults, with disabilities, talk  
20 about their work and how they were making it in the world.  
21 This gave me lots of hope and inspiration to study hard at  
22 Cabrillo Junior College, so I can create a good job for  
23 myself in the future.

24 More than any other experience I have ever had,  
25 this conference taught me so much about disability culture

1 and what it takes to become a leader. Also, I was able to  
2 meet and talk with lots of other students with disabilities  
3 and learn that we all had a lot of common feelings and  
4 struggles.

5 Do you know how empowering an experience like this  
6 can be? Very often, people with disability are isolated and  
7 alone with their experiences. So often there is not a place  
8 where it is safe and okay to talk about one's disability.  
9 The Youth Leadership Forum was the first place I felt  
10 talking felt safe about my feelings with other students. It  
11 was just great and I learned so much about myself.

12 Often, I think great leaders are made by how well  
13 they know themselves. Lots of times leaders will go with  
14 what the people want in order to get elected. But the truly  
15 leaders, great leaders will follow what their conscience and  
16 heart tells them.

17 When you decide whether or not to eliminate the  
18 Governor's Committee on Employment for People with  
19 Disabilities, which kind of leader will you be? I hope you  
20 will remember the great Youth Leadership Forum I talked  
21 about today and, hopefully, that will help you make the  
22 right decision.

23 COMMISSION CO-CHAIRPERSON HAUCK: Thank you,  
24 Tyler.

25 MR. FIHE: Thank you.



1 COMMISSION CO-CHAIRPERSON HAUCK: Thank you.

2 Steve Johnson.

3 MR. JOHNSON: Thank you. I'm Steve Johnson, J-o-  
4 h-n-s-o-n.

5 I'd like to start by saying good job, Tyler,  
6 excellent speech.

7 I also wish to talk about developmental  
8 disabilities and thank you for the CPR Committee for having  
9 us to speak, and thank you for volunteering your time  
10 towards this very worthwhile cause. Your efforts will make  
11 California a better place for our children.

12 My comments today are on an issue which was  
13 addressed at your San Diego hearing last week, Health and  
14 Human Services, and specifically services that California  
15 provides to the developmentally disabled.

16 I am Executive Director of the KOFT initiative.  
17 KOFT is a grass roots organization, made up of families who  
18 have children with developmental disabilities, and licensed  
19 caregivers, and professionals, who deliver these services.

20 KOFT supports the Governor and the CPR, consumers,  
21 who receive services from the Department of Developmental  
22 Services. DDS has a tremendous challenge in delivering care  
23 for over 200,000 Californians who are defenseless and have  
24 developmental disabilities.

25 In California, the Lanterman Act entitles all

1 Californians with developmental disabilities to receive  
2 needed services. But the current growth in this population  
3 and growth and cost of medical care necessitates  
4 consideration of new, more efficient service delivery.

5 By transitioning the State's five, large  
6 Developmental Centers into Resource Centers, California  
7 could provide quality medical, dental, and psychiatric  
8 services to thousands, while reducing the overall cost to  
9 the system.

10 A pilot project is proposed for Agnews  
11 Developmental Center, which would save the State \$20 million  
12 annually, as well as eliminate a significant outlay to  
13 develop equivalent service hubs in the community.

14 We currently have a twofold problem with  
15 Development Services. We have a community care system that  
16 is privatized and administered by 21 Regional Centers, which  
17 is struggling under increased case loads, low wages, and  
18 budget cuts.

19 On the other side, we have five State  
20 Developmental Centers that provide professional quality  
21 State staff, but are under-utilized and inefficient. The  
22 money is to be -- the best way to improve both systems and  
23 save money is to combine the two by giving access to all  
24 developmentally disabled consumers to the State's five  
25 Developmental Centers and the quality care that is delivered

1 by this licensed staff.

2 The KOFT proposal, that we have submitted to this  
3 Commission, has the potential to save the State \$20 million  
4 per year at Agnews, in San Jose, and five times that if  
5 implemented across the State.

6 It will also expand services, better utilize  
7 under-used State facilities, something the system  
8 desperately needs. KOFT creates choices and provides  
9 solutions.

10 Thank you for your time and consideration.

11 COMMISSION CO-CHAIRPERSON KOZBERG: Thank you.

12 Brian Boxall.

13 MR. BOXALL: Thank you for the opportunity to  
14 address this Commission. My name is Brian Boxall, the last  
15 name is B-o-x-a-l-l, and I am the President of the  
16 Association for the Mentally Retarded at Agnews.

17 The proposed closure of Agnews Developmental  
18 Center has really focused a spotlight on a growing statewide  
19 issue, namely the pressing need to reform, consolidate, and  
20 streamline the delivery of services to the developmentally  
21 disabled.

22 As Mr. Johnson just said, there's currently a huge  
23 gulf between the current, State-owned, State-operated model  
24 of Developmental Centers and the patchwork system of not-  
25 for-profit Regional Centers.

1           Therefore, any solution implemented at Agnews must  
2 address and benefit both ends of the service continuum.

3           The Department of Developmental Services has been  
4 struggling with this dilemma for almost two years now, but  
5 has yet to put forth a plan.

6           Meanwhile, the KOFT Initiative has partnered with  
7 one of the nation's most highly respected human services  
8 providers to develop a pilot program that would bridge this  
9 gap.

10          By properly utilizing existing resources, that are  
11 already in place, KOFT would ensure the health and safety of  
12 Agnews' profoundly retarded residents and expand the  
13 availability of vital services to thousands of additional  
14 consumers living in the surrounding community.

15          KOFT would retain the professional, licensed  
16 caregivers, who are essential to the quality and stability  
17 of this system, while reducing overall operating expenses at  
18 Agnews by 15 percent annually.

19          There's nothing magical about the KOFT solution,  
20 it's simply a demonstration of the sound business practices  
21 that have been advocated by this Commission, practices  
22 utilized in the private sector every day, but sometimes  
23 foreign to an unmotivated State bureaucracy.

24          I urge this Commission and this community to  
25 consider and support the KOFT solution as the most

1 humanitarian and fiscally responsible plan for Agnews, and  
2 as a pilot program that can be easily scaled and replicated  
3 across California.

4 Thank you.

5 COMMISSION CO-CHAIRPERSON HAUCK: Okay, thank you,  
6 Brian.

7 Bob Brownstein.

8 MR. BROWNSTEIN: Bob Brownstein, B-r-o-w-n-s-t-e-  
9 i-n. I am Policy Director for Working Partnerships U.S.A,  
10 which is a research institute in San Jose. I am working  
11 with the California State Employees Association to improve  
12 public services in California.

13 I'd like to speak about SO 74, which is on  
14 alternative delivery techniques. Alternative delivery  
15 techniques, the term, as used in the CPR document, it's a  
16 code word for outsourcing. And SO 74 recommends that  
17 California embraces alternative delivery techniques, but it  
18 doesn't suggest that we do it any old way, it suggests that  
19 we embrace alternative delivery techniques the way the  
20 geniuses do it.

21 Now, where are the geniuses? Well, if there's one  
22 theme that's consistent throughout the entire CPR document,  
23 it's that genius isn't uniformly distributed amongst the  
24 states of the union. Geniuses are apparently concentrated  
25 in a single state, Texas.

1           So we are supposed to employ alternative delivery  
2 techniques just the way they do it in Texas.

3           Now, fortunately, for this Commission and for the  
4 people of California, the State Auditor's Office in Texas  
5 has recently completed a report that illustrates, in  
6 brilliant detail, just how that state employs alternative  
7 delivery techniques.

8           The State Auditor examined Texas's CHIP program,  
9 that's its Children's Health Insurance Program. That  
10 program, a substantial part of it, was outsourced to a firm  
11 called Clarendon, and the State Auditor discovered that  
12 Clarendon over-charged the taxpayers of Texas approximately  
13 \$20 million.

14           The Auditor also observed that Clarendon made  
15 excessive payments of taxpayer dollars to its own program  
16 management company to the tune of \$5.5 million.

17           Now, the Auditor became suspicious about this  
18 program management subcontractor when he discovered it had  
19 no employees, and subsequent investigation showed that \$3.6  
20 million of Texas tax dollars was paid to four individuals.  
21 \$1.7 million to the two owners of the firm, \$1.1 million to  
22 a consultant, a former state manager, and \$800,000 to a  
23 lobbyist.

24           And when the Auditor asked what did these  
25 consultants do for so much money? He was told that the

1 consultants, "were generally not asked to produce work  
2 products."

3 So now you can see how the Texas alternative  
4 delivery system maximizes efficiency and increases service  
5 quality as SO 74 claims.

6 So I have a recommendation to modify SO 74.  
7 Instead of moving the Texas alternative delivery system,  
8 complete with waste and corruption to California, why not  
9 ask the people who like this system to move to Texas.

10 Thank you.

11 (Applause.)

12 COMMISSION CO-CHAIRPERSON HAUCK: Way to go, Bob.

13 Steve Chuchel.

14 MR. CHUCHEL: Good afternoon. Stephen Chuchel,  
15 C-h-u-c-h-e-l.

16 It's kind of hard to follow up that one. Good  
17 afternoon, thank you for the opportunity to speak today.  
18 I'm the principal at a small media and design company in  
19 Sacramento. My company has bid on State contracts in the  
20 past, and we hope to have the opportunity to work with the  
21 State in the near term.

22 With that said, the idea of preference in the  
23 State's bidding process, as proposed in the CPR report, is  
24 not the best direction to go in. I fear that the trend  
25 would extend to other sectors and, therefore, be an unfair

1 practice.

2           The impulse to propose a preference for open  
3 source versus proprietary software for streamlining the  
4 State's IT needs is good, and may work in the future, but I  
5 believe that the time is not right for that now.

6           At this point, open source software would create  
7 more problems than it would solve because it would require a  
8 new sector of highly skilled IT workers in order to make it  
9 work for the State's needs.

10           In terms of security, as we've heard, every  
11 software application is susceptible to problems. Currently,  
12 Linux represents approximately three percent of the current  
13 market share and roughly equivalent to Apple.

14           But precisely because of the State's embrace of  
15 Linux, it will then become a target of possible malfeasance.

16           With that said, I appreciate the opportunity to  
17 speak today.

18           COMMISSION CO-CHAIRPERSON HAUCK: Thank you.

19           The next speaker is Matthew Newman. And while  
20 he's coming up, I'd like to go through the next five people.  
21 Eric Miethke, David Oppenheim, Dennis Oliver, Michael Smith,  
22 and Tim, I think it may be Rainey, Tim Rainey.

23           Okay, you're on.

24           MR. NEWMAN: I'm Matthew Newman, N-e-w-m-a-n. I'm  
25 the Director of the California Institute for County



1 Government, we're a public policy research institute that  
2 works to improve local government in California.

3 I'm here today to talk about an affordable housing  
4 issue, but before I do I wanted to briefly address something  
5 that Commissioner Frates mentioned earlier. Even though the  
6 mighty Controller's Office can't get the local government  
7 data on their website, we have their data on our website and  
8 you can download it as an Excel file. So if you go to  
9 cicg.org, you can look at all their data, at least since the  
10 mid-eighties.

11 Anyway, for the past year I've been working with a  
12 group of affordable housing advocates, and for- and non-  
13 profit affordable housing developers. And they're  
14 concerned, and I'm concerned, about a recent legislative  
15 change that threatens the exemption from prevailing wage  
16 rules for affordable housing.

17 If we don't change policy, or there isn't a court  
18 action, all affordable housing or virtually all affordable  
19 housing that's built in the State will come under prevailing  
20 wage rules. This matters because prevailing wages are  
21 substantially higher than market wages, probably in the  
22 neighborhood of a third to a half higher than market wages.

23 So what happens when you use higher wages to build  
24 these projects? You end up with higher project costs.

25 When the Legislature passed this piece of

1 legislation there wasn't actually good research to know what  
2 the impact of this would be, specifically on the production  
3 of affordable housing. But in the intervening couple-year  
4 period two studies, one done by my Institute and one done by  
5 researchers at U.C. Berkeley, have found that costs would go  
6 up from about 10 to 20 percent, in that range.

7           What we did was we looked at about 400 affordable  
8 housing projects. We compared those built with prevailing  
9 wages to those built with market wages, and determined that  
10 the costs would go up by about 10 to 20 percent.

11           Now, if we raise costs by 10 to 20 percent and we  
12 don't increase the resources available, we have to produce  
13 fewer units, about 10 to 20 percent fewer units.

14           You guys have a lot of difficult issues that you  
15 confront. This one is relatively straightforward, we know  
16 the answer, don't require prevailing wages to build  
17 affordable housing. It doesn't cost any money to make this  
18 change, it just increases the amount of affordable housing  
19 that will be produced within existing resources.

20           And what we have, if we keep the current policy in  
21 place, is kind of, I think, strange welfare transfer from  
22 more or less middle class construction workers to residents  
23 of affordable housing, or away from residents of affordable  
24 housing projects to middle class construction workers. So  
25 it's not clear to me that you would want to hurt a group

1 that we have a lot of public policies designed to help, just  
2 to benefit a certain group of workers.

3 So I would urge you to take into consideration  
4 this issue. Thanks very much.

5 COMMISSION CO-CHAIRPERSON HAUCK: Thank you,  
6 Matthew.

7 Eric Miethke.

8 MR. MIETHKE: Thank you very much, Mr. Chairman.

9 Members of the Commission, my name is Eric  
10 Miethke, I'm a partner with Nielsen Merksamer in Sacramento.

11 Today I'm representing the Air Transport  
12 Association of America, and we're here to register our  
13 support for GC 19, the central assessment of airline  
14 property. You've heard more about airline property today  
15 than you probably ever dreamed.

16 You have written testimony that we've submitted.  
17 I won't belabor that. I will summarize it by sharing we  
18 share CPR's belief that this proposal would generate the  
19 same amount of property tax revenue, but at a fraction of a  
20 cost of collection for both the public and private sectors,  
21 and that's exactly what we thought the purpose of CPR was,  
22 so we endorse that.

23 I do want to respond, however, to some of the  
24 comments earlier today from Assessor Stone and Assessor  
25 Auerbach, my good friends.

1           Mr. Stone stated in his written testimony that the  
2   proposal is dated and should be shelved because the  
3   Assessors are moving forward with their own centralization  
4   plan, in consultation with the airline industry.

5           Well, let me clarify, there is no consultation.  
6   The Assessors are moving ahead unilaterally to implement a  
7   program, but their action only started when centralization  
8   at the State level was originally proposed to the  
9   Legislature.

10          Next, their program for centralization was  
11   proposed to the Legislature as part of the debate on SB 593  
12   and was rejected by a bipartisan vote of the Senate Rev. and  
13   Tax Committee for two reasons.

14          One, Legislative Council reviewed the program and  
15   said it was unconstitutional. A copy of that Leg. Council  
16   opinion is actually submitted to you all, as well.

17          But also, the Committee felt that the Assessors'  
18   proposal to divide up the airlines amongst themselves,  
19   behind closed doors and without any oversight was not a good  
20   idea, and that some other method was better.

21          I did also submit a letter on that issue, from  
22   Senator Gilbert Cedillo, the Democratic Chair of the Rev.  
23   and Tax Committee, and Dick Ackerman, the Senate Republican  
24   leader, to Senator Burton, dated yesterday. He said, "at  
25   the hearing on the bill the Committee considered and

1 discussed potential amendments that would have accomplished  
2 the centralized assessment approach proposed by the counties  
3 and chose not to amend the bill in that manner.  
4 Nonetheless, we're informed the Assessors have decided to  
5 unilaterally implement their plan. After consulting with  
6 Legislative Council, we believe this is permitted neither by  
7 statute, nor the Constitution. Furthermore, it's  
8 inconsistent with the actions of the Revenue and Taxation  
9 Committee."

10 So I hope that lends some clarification to where  
11 the Legislature is on the Assessors' program.

12 We do agree with Assessor Stone that the CPR  
13 proposal would be greatly improved by expanding it to  
14 include all aircraft personal property, and not just the  
15 airplanes. Although 95 percent of the value of personal  
16 property held by airlines is in its aircraft, moving  
17 assessment to the State level would allow for airlines truly  
18 to file one return, have one audit, and one appeal.

19 So we would urge you to expand, slightly, the  
20 proposal in the agreement.

21 We understand, at one level, both the Assessors'  
22 attitudes about this, but it underscores why CPR is  
23 necessary. Right now, we estimate about 50 people are doing  
24 this at the local level. CPR thinks they can do it with  
25 five people, with the Board of Equalization.

1 COMMISSION CO-CHAIRPERSON HAUCK: Okay.

2 MR. MIETHKE: For that reason, if none other, we  
3 think it ought to be adopted.

4 Thank you.

5 COMMISSION CO-CHAIRPERSON HAUCK: Okay, thank you,  
6 Eric.

7 David Oppenheim.

8 MR. OPPENHEIM: Great. Thank you for the  
9 opportunity to address the Commission.

10 My name is David Oppenheim, O-p-p-e-n-h-e-i-m.  
11 I'm the Executive Director for the Child Support Directors  
12 Association, representing the directors throughout the State  
13 and the approximate 9,000 child support professionals  
14 throughout California.

15 I'd like to address an issue that was discussed at  
16 the San Diego meeting, specifically HHS 03, concerning  
17 improving performance and reducing the cost of California's  
18 Child Support Program.

19 Let me open by saying that CSDA supports reform,  
20 we support program performance and cost effectiveness. Last  
21 year, CSDA worked closely with the State Department of Child  
22 Support Services to develop a laundry list of proposals  
23 designed to streamline the program and promote operational  
24 efficiency. That effort is ongoing and continues to this  
25 day.

1           Since the major reorganization of the Child  
2 Support Program five years ago, which created both a  
3 Department of Child Support Services and county-based local  
4 Child Support Agencies, collections have increased from \$1.8  
5 billion, in 1999, to an expected \$2.4 billion in 2004, a  
6 gain of \$600 million, representing a 29 percent increase  
7 over five years.

8           Additionally, the reorganization has resulted in  
9 improved customer service access through dedicated local  
10 outreach programs, improved customer service through local  
11 ombudsperson and complaint resolution programs, and improved  
12 local accountability. A local Child Support Director is  
13 hired and accountable to his or her local Board of  
14 Supervisors and their constituents.

15           Our program successes were recognized last year by  
16 the National Child Support Enforcement Association, which  
17 recognized California's Child Support Program as the most  
18 improved program in 2003.

19           CSDA's position on the privatization proposal  
20 contained in the report is simple, let child support  
21 professionals work with the Administration, the Legislature,  
22 other stakeholders, and the Commission on concrete proposals  
23 to tune up the existing system before we begin to change the  
24 current landscape.

25           We believe this is not the time to be changing our

1 focus on the program. Our collective priority must be on  
2 reaching certification of our statewide Child Support  
3 Automation System.

4 California's failure in this area has resulted in  
5 federal penalties against the State, which have already  
6 totaled over \$700 million. These penalties will continue at  
7 a rate of about \$200 million annually, until California has  
8 a certifiable statewide system.

9 Currently, the Directors Association, as well as  
10 over a hundred child support professionals, are working as  
11 partners with the State to achieve this critical goal.

12 Successful implementation of this system will not  
13 only relieve California of the costly penalties, but will  
14 also represent a milestone for the program. When fully  
15 operational, the California Child Support Automation System,  
16 or CCSAS, will be a single integrated system which  
17 significantly enhances locate and enforcement features.

18 One estimate, provided by the Department of  
19 Finance in June, estimated that the system will yield  
20 benefits of \$5.1 billion over ten years from increased child  
21 support collections, decreased operating cost, and  
22 elimination of federal penalties.

23 Nearly every other state in the country has  
24 successfully implemented a statewide system. Implementation  
25 of California's system will put California on a level



1 playing field.

2 COMMISSION CO-CHAIRPERSON HAUCK: You've got to  
3 wind up, David.

4 MR. OPPENHEIM: All right, just about done.

5 And it is expected to significantly improve  
6 program performance and cost effectiveness. We should not,  
7 at this late hour, devote our focus from the task at hand,  
8 expedited certification of the statewide system.

9 Finally, we should collectively recognize the hard  
10 work, dedication and professionalism of the California Child  
11 Support professionals who work diligently, each day, on  
12 behalf of California's children and families.

13 Thank you.

14 COMMISSION CO-CHAIRPERSON HAUCK: David, thank  
15 you.

16 Dennis Oliver. Dennis.

17 MR. OLIVER: Dennis Oliver, that's Dennis, with  
18 two "N's", and O-l-i-v-e-r.

19 I work for the California Alliance for Jobs. We  
20 are a labor management partnership that represents 2,000  
21 construction firms and 50,000 union workers, these are  
22 builders of public infrastructure, through Northern and  
23 Central California. We don't represent Southern California.

24 And so our comments are in reference to some of  
25 the suggestions included in chapter four of the CPR.

1           First of all, and I'm just going to go through,  
2 we're going to be submitting written comments, so I'm just  
3 going to touch on these as quick as I can here.

4           First of all, we agree with you, and I'll start  
5 with what we agree with you on, that Proposition 42, the  
6 constitutional amendment approved by voters in March 2002,  
7 dedicating the half-cent sales tax for transportation to  
8 transportation products -- or projects, I mean, that we need  
9 a fix to that, that closes the loopholes that allows the  
10 Legislature to take that money for other things.

11           That would generate \$1.6 billion for  
12 transportation, annually, and since it passed we haven't  
13 seen that money.

14           You make some suggestions regarding hot lanes and  
15 variable pricing for roadways, we think that's worth  
16 exploring.

17           Third, there is some reference to the State  
18 relinquishing control of certain thousands of miles of State  
19 highways to local governments. Our question regarding that  
20 is who, once that happens, would end up paying to maintain  
21 those? The local governments are already strapped for  
22 money.

23           We offer caution on the concept of charging a per-  
24 mile fee for roadway use. In particular, I think we need  
25 more information on how that would affect the average

1 working person, and perhaps a simple increase in the  
2 gasoline tax might be easier to swallow.

3 Fuel emissions on transportation issues, and I'll  
4 mention just one of them, and that is the half-cent sales  
5 tax issue. More transportation funding is generated by the  
6 local counties that choose, where voters choose to approve  
7 half-cent sales taxes for transportation.

8 And one of the problems we've seen, we've worked  
9 on many of these campaigns, is that with the two-thirds  
10 majority requirement for those campaigns, these programs are  
11 falling short with 60, 62 percent of the vote. And so some  
12 reference to lowering the threshold for those to 55 percent  
13 would probably be worth looking at. It's an omission in the  
14 report.

15 I'm almost out of time. I had some things to say  
16 about water, but we'll cover that in our written comments so  
17 I'm not going over.

18 Okay, thank you.

19 COMMISSION CO-CHAIRPERSON HAUCK: Thank you,  
20 Dennis.

21 Michael Smith.

22 MR. SMITH: Hi, I'm Michael Smith, and I'm with  
23 the Quest Communications Corporation and we really  
24 appreciate the opportunity to provide public testimony at  
25 the CPR Commission hearing.

1           I represent Quest's Government and Education  
2 Solutions organization, and my personal experience and  
3 understanding of the State's network infrastructure dates  
4 back to the 1980s, and over the years I've been involved in  
5 the procurement and implementation of numerous State  
6 telecommunications and information technology contracts.

7           My comments today, in the brief time we're allowed  
8 for testimony, will be on SO 14, the development of a  
9 statewide network infrastructure to increase capacity and  
10 reduce telecommunications costs.

11          Quest will follow up with more detailed  
12 recommendations within the coming weeks.

13          The recommendations from SO 14 are that the State  
14 of California create a statewide optical backbone network  
15 with access points in ten LANS across California, that would  
16 be procured and managed by the State's CIO, in an effort to  
17 meet the increasing demand and reduce telecommunications  
18 costs.

19          We believe that the State can achieve an  
20 efficient, flexible, and cost-effective network from a  
21 competitive, multi-service provider environment and a  
22 procurement vehicle, without the need to build and run its  
23 own optical backbone.

24          Before the current State contract, CalNET, the  
25 State did run its own telecommunications network, which

1 incurred debt of approximately \$20 million. The debt was  
2 taken over by SBC and MCI, the two holders of the current  
3 Master Service Agreement for Telecommunications, in exchange  
4 for a sole-source partnership for providing all  
5 telecommunication services to State agencies.

6           The upside of the resulting contract was that the  
7 State was relieved of the debt. The downside was a long-  
8 term contract that prevents market forces and competition  
9 from driving down prices, while introducing new, enabling  
10 technologies.

11           A preferred statewide network would be one in  
12 which multiple service providers interconnect at three or  
13 more private exchange points. State agencies could pick  
14 from a list of pre-approved service providers on an MSA,  
15 that encourages ongoing competition and technology refreshes  
16 on an annual basis.

17           This network would be a collection of private  
18 networks interconnected at the exchange points, similar to  
19 how the internet is a network of networks. This model  
20 strikes a balance between State control and oversight,  
21 enabling technologies, cost, agency choice, flexibility, and  
22 interconnections of agencies to form a statewide area  
23 network.

24           To make drastic improvements, the State will have  
25 to make small, manageable steps to reduce risks of proven,

1 but new technologies. A multi-service provider MSA, similar  
2 to the current Federal Telecommunications vehicles that the  
3 federal government employs, would ensure competition in the  
4 full spectrum of telecommunication services.

5 The goal of the State is to serve the public.  
6 Each agency should focus on deliverables, implied in network  
7 services, that best serve the agency's mission. Let the  
8 proven service providers provide the network, and the State  
9 doesn't need an optical network.

10 Thank you.

11 COMMISSION CO-CHAIRPERSON HAUCK: Okay, Mike,  
12 thank you.

13 The next speaker is Tim Rainey. And while he's  
14 coming forward -- is Tim here? Okay.

15 The next speakers are Elaine Hamilton, Celeste  
16 DeWald, Ty Williams, John Maa, and Lawrence Hill.

17 Take it away, Tim.

18 MR. RAINEY: Thanks. Tim Rainey, with the  
19 California Work Force Association. The last name is  
20 R-a-i-n-e-y.

21 CWA represents local Work Force Investment  
22 partnerships throughout the State of California.

23 I want to make a few, brief comments on the CPR  
24 report section titled "Improving the Business Climate." I  
25 want to make them real brief because these two folks, that

1 you called up just after me, are Chairs of local Work Force  
2 Investment Boards that serve this region, the Silicon Valley  
3 region, they're private sector folks, and they're private  
4 sector driven WIBs.

5 Our primary concern is with language in section  
6 GG 23. It recommends reducing the number of local Work  
7 Force Investment areas in California from 50 to between 20  
8 and 30.

9 Work Force Investment areas, as I said, there are  
10 50 in the State, as the report points out. They are cities,  
11 and counties, and they're consortiums of either cities and  
12 counties. They are represented by local Work Force  
13 Investment Boards. Those Boards are appointed by local  
14 elected officials. They are private sector majority, and  
15 they also have public sector members who represent other  
16 Work Force Investment training systems in the local  
17 community, also in the State.

18 California receives about a half a billion dollars  
19 in Work Force Investment Act funds annually, and those funds  
20 are administered locally.

21 Somebody mentioned widgets, in one of the Panels  
22 earlier, sort of to give you a real easy definition of what  
23 these guys are up to, basically, they bring logic to  
24 training programs. If there are widgets being produced in a  
25 community, and that production, that manufacturing is

1 creating really good jobs in the community, high-paying  
2 jobs, sustainable, then the Work Force Investment Boards  
3 ensure that the training programs that are publicly financed  
4 are readying people to take those jobs.

5 On the other hand, if there are no widgets being  
6 produced in that community, then the resources are deployed  
7 in another place.

8 Just a few brief points and I'll try to hurry,  
9 because I know I have just a little time. On this  
10 recommendation, first is that administration has value. The  
11 main thrust behind GG 23, I think, is the notion that the  
12 number of Work Force Investment areas, if they reduce, it's  
13 going to sort of free up some administrative costs that then  
14 can go to training.

15 We believe there's an intrinsic value. Of course,  
16 the administration, in this context, being the local Work  
17 Force Investment Boards. There's intrinsic value in  
18 administration. It brings in more dollars by leveraging  
19 millions of local, state, and federal funding. It engages  
20 the business community. It makes training relevant, as I  
21 said, and ultimately affects the return of investment that  
22 wouldn't otherwise be there.

23 Secondly, we strongly suggest that if this  
24 recommendation is carried forward, the California Work Force  
25 Investment system is going to lose millions and millions of



1 dollars in those local funds that are leveraged with the  
2 federal funds.

3 The Work Force Investment Act dollars in the local  
4 area is leveraged dollar for dollar in local communities.  
5 That is, the Work Force Investment Act dollars account for  
6 about 20 percent to 50 percent of the money in a local  
7 community that goes to supporting those systems. The rest  
8 comes from local government general funds, CalWORKS funds --

9 COMMISSION CO-CHAIRPERSON HAUCK: Okay, you've got  
10 to wind up, Tim.

11 MR. RAINEY: Thanks. -- and HUD monies. If you  
12 consolidate these areas, you make fewer of them, and then  
13 you lose that money.

14 And just one last point, real quick, I see the  
15 stop sign. Just one last point, there are 1,100 business  
16 people on these local Work Force Investment Boards. If you  
17 cut that number in half, you lose half those businesses, you  
18 lose that input on the policymaking in a local community.

19 Thanks.

20 COMMISSION CO-CHAIRPERSON HAUCK: Okay, we got it.  
21 Thank you.

22 Elaine Hamilton.

23 MS. HAMILTON: Hi, I'm Elaine Hamilton,  
24 E-l-a-i-n-e H-a-m-i-l-t-o-n, and I am the Co-Chair of the  
25 Nova Work Force Board, and I'm also Vice-President from AVEL

1 Semiconductor in Sunnyvale, California. Not Texas.

2 For the past 20 years Nova has been providing  
3 award winning Work Force services as part of a seven-city  
4 consortium in the heart of Silicon Valley. Nova has served  
5 tens of thousands of job seekers and assisted thousands of  
6 businesses.

7 To start, I just want to applaud you for efforts  
8 to look for efficiencies statewide, and I want to applaud  
9 you for putting in this time today.

10 However, I hope in your deliberations you will  
11 seriously consider the damage the CPR recommendations are  
12 for consolidated boards, the damage that they will have on  
13 the community and the economy which, frankly, I don't think  
14 during these challenging economic times we can afford to let  
15 happen.

16 Given the time constraints today, the Nova Board  
17 will also be providing you with more detailed, written  
18 response.

19 But I sit on the Board of Nova because to me it  
20 represents business values. It represents leadership, it  
21 represents execution, focus, and overall results.

22 Nova Work Force System is locally owned and  
23 operated and tailored to meet the unique needs of our  
24 customers. Companies who serve on the Board contribute  
25 their valuable time and resources to Nova because they can

1 make a difference in the community where they conduct  
2 business.

3 For example, PolyCom coordinates our annual awards  
4 luncheon. Selectron recently equipped and furnished our  
5 Business Service Center. When our Youth Office lost its  
6 home in a regional mall, Network Appliance took up the baton  
7 and went to business partners, donating all aspects of the  
8 newly renovated Youth Employment Office, at no cost to Nova.

9 At that time, that was my company, and it gave all  
10 of our employees, our 2,000 employees in Sunnyvale, a chance  
11 to participate directly in the community.

12 In an effort to better understand and respond to  
13 our customer's requirements, Nova used the Center for  
14 Quality of Management and spearheaded our Voice to the  
15 Customer, that we did internally at Nova.

16 Again, we do what we do because we can, and we do  
17 it to make a difference in our local community.

18 With a larger, consolidated board, which is being  
19 recommended in the CPR, you would most likely end up with  
20 less business volunteers, less donated resources, and less  
21 understanding of customer requirements.

22 I also have to say that I, personally, would be  
23 reluctant to participate in a larger board, and along with  
24 my company, where we would be less likely to have a real  
25 impact where we conduct our business.

1 Thank you. I appreciate it.

2 COMMISSION CO-CHAIRPERSON HAUCK: Elaine, thank  
3 you.

4 Celeste.

5 MS. DE WALD: Good afternoon. My name is Celeste  
6 DeWald. First name C-e-l-e-s-t-e, last name DeWald, D-e-w-  
7 a-l-d.

8 Thank you very much for having some time for  
9 public comment, especially since it may not pertain to the  
10 agenda, which my comments will not pertain to today's  
11 specific topics.

12 I hope you will be celebrating a successful  
13 meeting by turning on the disco light up above, at four  
14 o'clock.

15 I am the Executive Director of the California  
16 Association of Museums, which represents the 1,300 museums  
17 across California, everything from the volunteer-run  
18 Historical Society, to the large-scale Art Museum, to zoos  
19 and aquaria.

20 First of all, I wanted to say that the California  
21 Association of Museums shares many of the goals outlined in  
22 the CPR, including making State agencies more efficient and  
23 creating an overall organization that is not fragmented.

24 It is for this specific reason that I am  
25 addressing you today.

1           There are several State agencies that California  
2 museums and cultural organizations across the State have a  
3 vested interest in. For example, the new California  
4 Cultural and Historical Endowment, the California Arts  
5 Council, Parks and Recreation, State Library and Archives,  
6 the Travel and Tourism Commission.

7           Unfortunately, however, as the CPR stands  
8 currently, these five related agencies are located in four  
9 different departments. This seems counter productive when  
10 the CPR's intention is to create a more cohesive government.

11           If we may suggest that the Commission turn to  
12 other state models, such as New Mexico or Nevada, where they  
13 have a Department of Cultural Affairs, that has all of the  
14 agencies I mentioned earlier under one umbrella.

15           We believe a model, such as this, would create a  
16 more cohesive and effective cultural agenda and allow these  
17 agencies to leverage their resources. The overall outcome  
18 would be a greater and more positive influence on California  
19 museums and cultural organizations, as well as the residents  
20 and visitors of this dynamic State.

21           We will be submitting written comments in the  
22 coming weeks. And once again, thank you very much for this  
23 opportunity to speak.

24           COMMISSION CO-CHAIRPERSON HAUCK: Thank you.

25           Ty Williams.

1           MR. WILLIAMS: Hello, thank you for having me  
2 today. I was asked to come and discuss a little bit about  
3 the streamlining of the construction process with the State  
4 agencies.

5           I'm the Director of School Construction for the  
6 San Jose Unified School District, and we're wrapping up  
7 about a \$250 million facility improvement program, and just  
8 embarking on another \$430 million program from the  
9 subsequent General Obligation Bond.

10          We've done a significant amount of construction  
11 and are continuing to do so, and have seen the various State  
12 agencies in action. In general, we think that we have a  
13 system in the State that works. We've heard proposals come  
14 down from consolidating the Division of State Architect with  
15 CalTRANS, for instance, or perhaps turning their  
16 responsibilities over to local plan review committees, and  
17 so on, to review.

18          And we have some concern there. While we  
19 obviously feel there's some glitches in the system and some  
20 problems that need to be addressed, we don't think that  
21 either of these actions would benefit the programs that are  
22 going on statewide, in any kind of a significant way.

23          The difficulty that we see is that right now we've  
24 basically got a specialized team of plan check engineers,  
25 field engineers, access compliance officers, fire marshalls,

1 and so on that are focused on public school facilities,  
2 other State agency facilities, and essential services  
3 buildings. And with that specialization and focus comes a  
4 continuity of interpretation of requirements and it provides  
5 an ability for architectural firms, and construction  
6 management firms, and districts, statewide, to have the same  
7 understanding of what's going to be required of them for  
8 their facilities, and not have it left up to various  
9 agencies here and there.

10 And quite frankly, you know, I think the CalTRANS  
11 model is a concern because we have quickly changing  
12 demographics in this State, with student population growth  
13 heavy in the Central Valley, while it's in a decline in our  
14 particular district. And I think we need to be able to  
15 react a little faster than what we've seen from the CalTRANS  
16 model in reacting to increased commutes and so forth. I  
17 mean, the only thing that's improved my commute has been the  
18 significant layoffs in the Silicon Valley, here, recently.

19 And it all comes down to basically one issue and,  
20 you know, that's time and money. And time is money. And  
21 what we've seen this year is that our plans were going to  
22 the State for a review, and they weren't getting reviewed.  
23 They were sitting there for three months before they could  
24 get a chance to look at them.

25 And in many cases, at that point they'd realize,

1 well, we don't have the personnel to do this, so they would  
2 outsource it to another group.

3 That costs us time in our bidding environment, and  
4 it cost us money in the bids that we got. As we approached  
5 the summer, our bids rose in direct correlation to the time  
6 of year. And that cost us money, it put some of our  
7 projects on hold, we're rebidding those at a future date.  
8 It took work away from some of the folks in this community  
9 that would have been doing it, otherwise.

10 You know, we feel it important that what is done  
11 is that the staffing that's needed at these State agencies  
12 is provided and then that money can be returned back into  
13 the projects and our programs.

14 I'm told to stop.

15 COMMISSION CO-CHAIRPERSON HAUCK: Thank you.

16 Dr. John Maa.

17 DR. MAA: Good afternoon. My name is John,  
18 J-o-h-n, Maa, M-a-a. I'm a Professor of Surgery at the  
19 University of California, at San Francisco, and I'm also  
20 President Elect of the Board of Directors of the American  
21 Heart Association and the American Stroke Association.

22 I'm here to speak on behalf of the AHA to urge you  
23 strongly to preserve Assembly Bill 1220, which is directed  
24 to create a Heart Disease and Stroke Prevention and  
25 Treatment Task Force, whose central purpose will be to



1 create a master plan to coordinate the delivery of stroke  
2 care and cardiac care in California.

3           Stroke and heart disease are the number one and  
4 the number three killers of Americans. It's estimated that  
5 the economic toll is approximately \$350 billion nationally,  
6 each year. In the State of California, it's estimated that  
7 \$14 billion will be directed towards treatment of stroke and  
8 heart disease victims over the next year.

9           The purpose of the Task Force, which is supported  
10 entirely by private funding, which has already been raised  
11 by the American Heart Association, as well as by Kaiser  
12 Permanente, and Astra Zeneca, is to develop an  
13 implementation policy and a guideline for the next decade,  
14 to allow us to successfully and competitively apply for  
15 national grant funding.

16           Unfortunately, until this time, all previous grant  
17 applications have been denied because a master plan was not  
18 in existence. The creation of that master plan is the  
19 primary goal of this initiative.

20           Once we're able to successfully compete on a  
21 national level for grant funding, it is anticipated that  
22 approximately \$1 million each year of revenue can be brought  
23 to the State of California.

24           Unfortunately, the CPR has recommended that the  
25 Task Force be abolished. At this time, several of the

1 Commission members have already been appointed, and one of  
2 the reasons cited was that there was an incomplete roster of  
3 Committee members. But the only area in which this has not  
4 been completed is by Governor Schwarzenegger, himself.

5           Stroke disease has been fairly prominent in San  
6 Jose, recently, with the Mayor who's suffered a stroke. As  
7 a surgeon, who treats all the complexities and evolving  
8 trends in stroke care, which involve neurointerventional  
9 radiology, carotid stenosis, transient ischemic attacks,  
10 hypertensive strokes, I think that at this time the brain,  
11 especially in stroke care, is really at the frontier of  
12 medicine.

13           And just like the heart was in the sixties, it's  
14 really critical that we have a long-range vision and a long-  
15 range plan to coordinate all of the future care that we  
16 deliver in our State and even nationally.

17           And so, therefore, I strongly urge and request  
18 that the Committee reconsider, and I hope that we're able to  
19 preserve the creation of this Task Force to help us improve  
20 the delivery of care in the State of California.

21           Thank you.

22           COMMISSION CO-CHAIRPERSON HAUCK: Thank you,  
23 Doctor.

24           Lawrence Hill. And then after Lawrence, the next  
25 speakers, Mark Walker, Teddie-Joy Remhild, Eric Taylor,

1 Dmidriy Kruglyak, I believe that's close, and Olin King.

2 MR. HILL: Good afternoon. My name is Lawrence  
3 Hill and I have been a dedicated Child Support Officer in  
4 Los Angeles for over 25 years.

5 I'm here today on behalf of my fellow co-workers,  
6 and the families we serve, to speak against the  
7 recommendation to remove county child support departments as  
8 the administrator of the program.

9 We also strongly oppose the proposal to privatize  
10 Child Support Services. These proposals would greatly harm  
11 the families who rely on Child Support Services to buy food,  
12 pay the rent, afford childcare, and have health insurance.  
13 These proposals would eliminate accountability, increase  
14 costs, decrease the access to services, decrease performance  
15 and make the Child Support System more complicated.

16 Instead of dismantling a system that works,  
17 improvement in performance and efficiency can only be gained  
18 as the stakeholders engage in a process to develop ways to  
19 increase cost effectiveness, customer service, and  
20 performance.

21 Even more important, the key to improving  
22 performance is creating a fair and equitable allocation  
23 methodology. Funding, or allocation per case is the single  
24 most important predictor of success for meeting and  
25 exceeding federal performance measures, which have the

1 greatest impact on children and families.

2           The manner in which the State funding of Child  
3 Support has been allocated is based upon historical or  
4 expenditure trends, which have proven to be inequitable to  
5 the counties bearing the largest case load within the State.

6           Los Angeles is severely under-funded and does not  
7 enjoy the same level of funding per case most other counties  
8 do.

9           For instance, Los Angeles has allocations of \$296  
10 per case, compared to \$521 in Orange County, and \$1,012 to  
11 Marin County.

12           In order to improve performance, the Stateshould  
13 increase the allocation of under-funded counties. Every  
14 dollar the state puts in is matched by federal dollars.  
15 Also, every dollar collected from foster care and welfare  
16 cases goes back to the State. The investment pays for it  
17 itself.

18           The collection in Los Angeles has climbed from  
19 \$318 million, from 1999 county fiscal year, to over one-half  
20 billion dollars in the county fiscal year ending June 30th,  
21 2004, a 57 percent increase in performance.

22           This increase has occurred despite the fact that  
23 Los Angeles County has remained chronically under-funded,  
24 receives only 20 percent of the State's funding allocation,  
25 despite having 25 percent of the State's child support case

1 load and 28 percent of the State's population.

2 Thank you.

3 COMMISSION CO-CHAIRPERSON HAUCK: Lawrence, thank  
4 you.

5 Mark Walker. Is Mark not here?

6 Okay, Teddie-Joy Remhild.

7 MS. REMHILD: Thank you very much. My last name  
8 is R-e-m-h-i-l-d.

9 I am employed by the Personnel Assistance Services  
10 Council, the Public Authority for IHSS, In-Home Supportive  
11 Services, in Los Angeles County. We serve a population of  
12 140,000 people with disabilities and people over the age of  
13 65. And my position at the Agency, I am the Coordinator for  
14 Disability and Senior issues.

15 I, first of all, wanted to applaud Tyler's  
16 comments on preserving the Governor's Committee. An aspect  
17 of my job is also to serve on a State Steering Committee,  
18 known as the California Health Incentives Improvement  
19 Project, which is administered through the California  
20 Institute of Human Services at Sonoma State, and the  
21 Department of Health Services, and operates with a grant  
22 from the Center for Medicaid and Medi-Care services, to  
23 disseminate information to people with disabilities that  
24 they can work, they can keep their Medi-Cal coverage, they  
25 can keep their in-home supportive services.

1           That is the program that has been in operation in  
2 California since 2000, I believe, and we are just now  
3 applying for a new four-year grant from CMS. We work in  
4 conjunction with the Governor's Committee on Employment for  
5 People with Disabilities. I serve on the Executive  
6 Committee of the Governor's Committee, which is a mandate of  
7 AB 925, a legislation that was signed into law a year ago by  
8 Governor Davis, which allows people with disabilities to  
9 transfer In-home Supportive hours into the work place for  
10 personal care.

11           So the mandate is for -- AB 925 requires that the  
12 CHP Steering Committee and the Governor's Committee work  
13 together to implement the AB 925.

14           Medical coverage has been seen as a major barrier  
15 for people with disabilities to go to work. At the present  
16 time, 65 percent of people with disabilities in the State of  
17 California are unemployed.

18           The second barrier that I want to speak to, which  
19 has been a topic today, is access to technology. I,  
20 personally, have assistive technology that I use at work,  
21 but I find that a lot of the government websites are very  
22 consumer unfriendly, not very navigable for someone who  
23 doesn't read screens. I would like to encourage that the  
24 Commission consult with the agencies and with the consumers  
25 who need this service. If these websites and the technology

1 were more accessible, more people with disabilities would be  
2 employed.

3 And the Work Investment Boards, they need to be  
4 accessible as well, the one-stop career centers.

5 So is it time? Okay.

6 Anyway, please keep the Governor's Committee  
7 together and please use more assistive technology. Thank  
8 you very much.

9 COMMISSION CO-CHAIRPERSON HAUCK: Eric Taylor.

10 MR. TAYLOR: Eric Taylor, T-a-y-l-o-r. I'm an  
11 Investigator and Peace Officer for the California Department  
12 of Social Services, Bureau of Investigations, or BOI.

13 The reason I'm here today is to let the Commission  
14 know that the CPR recommendation in Section PS 06 is based  
15 on incorrect, inaccurate, and incomplete information.  
16 Therefore, the recommendation is really one that should not  
17 stand under those circumstances.

18 First of all, however, BOI investigators are  
19 responsible for the enforcement of State law and  
20 regulations, concerned with the prevention of abuse and  
21 protection of the health and safety of persons residing in,  
22 or receiving care and supervision from licensed facilities.

23 These individuals represent the most vulnerable  
24 population in the State. The reside or receive services  
25 from 90,000 licensed facilities, we're talking about over

1 1.4 million people.

2 The individuals include infants, foster children,  
3 group home children, developmentally delayed and mentally  
4 ill adults, and senior citizens.

5 In the course of protecting this population, BOI  
6 investigators have investigated perpetrators of felonious  
7 sexual and physical abuse of children, adults, and the  
8 elderly. Every single BOI case has a potential for both  
9 administrative and criminal penalties.

10 Some of the crimes that we routinely investigate  
11 are rape, lewd acts with a child, oral copulation, sodomy,  
12 sexual battery, unlawful sex with a minor, annoy or molest a  
13 child, and indecent exposure.

14 The CPR Public Safety team recommended that the  
15 BOI investigators be reclassified to nonpeace officer  
16 positions. Again, this is based, I feel, on incorrect and  
17 inaccurate information. It's incorrect and inaccurate  
18 because the Review Team spoke with a very limited number of  
19 individuals who actually work for BOI, and those  
20 individuals, quite frankly, did a dismal job of representing  
21 BOI and its functions. That's not CPR's fault but, again,  
22 wrong is wrong. A judgment should not be made based on  
23 incorrect information.

24 They want to replace sworn investigators with  
25 nonsworn personnel to investigate the same crimes. I want



1 to tell you, the theory that nonsworn personnel, with no law  
2 enforcement training and expertise, can conduct  
3 investigations at the same level of competence of POST-  
4 trained peace officers, who have access to restricted law  
5 enforcement information and working relationships with local  
6 law enforcement and district attorneys is invalid.

7 I have submitted a detailed rebuttal, point for  
8 point, of the criteria that the CPR Public Safety Review  
9 Team states it used to arrive at its recommendation.

10 Thank you.

11 COMMISSION CO-CHAIRPERSON HAUCK: Thanks, Eric.

12 Dmidriy. Am I getting this right?

13 MR. KRUGLYAK: Dmidriy Kruglyak, K-r-u-g-l-y-a-k.

14 COMMISSION CO-CHAIRPERSON HAUCK: Okay, I was  
15 close. Go ahead, Dmidriy.

16 MR. KRUGLYAK: Close enough. Everyone gets it  
17 wrong.

18 Thank you for the opportunity to testify here.  
19 I'm President of Akway Group, and we're an e-health  
20 technology firm. We develop systems and applications for  
21 the use of Smart Cards in healthcare. And my comments are  
22 in regard to the recommendation to implement Medi-Cal Smart  
23 Cards, HHS 28.

24 I have submitted my written testimony regarding  
25 this recommendation. I have also reviewed the testimony

1 from the prior session, on Health and Human Services, and I  
2 found there was a difference of opinion.

3 What I'm hoping to offer here is some pragmatic  
4 middle ground to help the Commission understand the benefits  
5 of the technology and the concerns, and how they can be  
6 addressed.

7 First, let's start with the concerns. The patient  
8 advocates expressed concerns about the invasiveness of the  
9 technology, confidentiality, and privacy. These are very  
10 valid concerns, but they can be addressed with the  
11 technology, just as every technology can have issues and can  
12 serve different type of causes, they can be addressed.

13 The greatest objection actually seems to be not  
14 about the Smart Cards, if you look at what they're saying,  
15 but about fingerprinting. Smart Cards can actually be  
16 implemented without fingerprinting, with use of PIN codes.  
17 But, unfortunately, the CPR report seems to imply that this  
18 is the only option. Biometric and fingerprinting is not yet  
19 a mature technology. There are no major deployments where  
20 it has been truly successful.

21 In the U.S., the U.S. Department of Defense is  
22 probably the farthest along, and they've been behind and  
23 they've been unable to make it work.

24 So the recommendation here is to go ahead with  
25 Smart Cards, but wait for biometric technology to mature,

1 for DOD, for the federal government to lead the way to  
2 develop the standards.

3           Next, about some of the benefits. I was glad to  
4 hear from Robert Hertzka, President of California Medical  
5 Association, a very strong endorsement of Smart Cards. But  
6 his comments, actually, do not just talk about what the  
7 report says, primarily from anti-fraud, fraud prevention  
8 angle.

9           He also talks about improving quality of care, and  
10 this is a position we fully share. Our position is that if  
11 the State spends money to deploy Smart Cards, to combat  
12 fraud, it would be really wasteful to pass up the  
13 opportunity to improve health services, including emergency  
14 response, advance directive, electronic prescribing, and so  
15 on in our testimony, disease management, patient safety, at  
16 the same cost, with the same deployment.

17           Unfortunately, the short comment of the report is  
18 that the recommendation only deals with anti-fraud. And I'm  
19 not going to go, again, into what is the issue of trying to  
20 copy things from Texas, but that's what, unfortunately, the  
21 report comes across. They mention a number of references.  
22 Their recommendation seems to exactly copy what Texas is  
23 doing.

24           Well, there are a number of other examples they  
25 should look at. For example, Smart Card deployments in

1 Europe, in France, in Germany, where a Smart Card is used to  
2 put emergency information in the hand of physicians to  
3 improve care.

4 And I will just very quickly summarize, another  
5 big concern with this initiative, how it's framed, is it  
6 suggests to select a vendor before the healthcare community  
7 is really engaged, and this seems to be a totally wrong  
8 approach.

9 What we really need to do, we need to establish  
10 the community of stakeholders task force to get the --

11 COMMISSION CO-CHAIRPERSON HAUCK: All right,  
12 Dmidriy, you've got to wind up here.

13 MR. KRUGLYAK: It's all in the testimony, so you  
14 can take it and look at the recommendation.

15 COMMISSION CO-CHAIRPERSON HAUCK: All right, thank  
16 you.

17 Olin King. And is he here? Olin King?

18 Okay, Sandra Clifford. And after Sandra, Charon  
19 Borrege. And then we have Dan Casey, Mike Natale, and Ryan  
20 Kaher, who would like to come up together.

21 MS. CLIFFORD: I'm Sandra Clifford and this is  
22 Dan. May Dan's group go before me, Sandra Clifford? I  
23 follow what they're saying.

24 COMMISSION CO-CHAIRPERSON HAUCK: All right.

25 MS. CLIFFORD: Thank you.

1           MR. CASEY: Sir, we're just going to follow  
2 consecutively, we'll be done in three minutes, no problem.

3           My name is Dan Casey, I'm with the SJSU, San Jose  
4 State University Coalition of Aviation Students, Alumni and  
5 Industry Members, and we're organized to rebuild the SJSU  
6 Department of Aviation.

7           We have a rich, 69-year history of providing  
8 educated leaders to the Aviation industry. We're here today  
9 because we can identify with the California Performance  
10 Review's goals on education. The first goal being that the  
11 California Education System must meet the growing needs for  
12 a skilled and well-educated work force.

13           We completely agree with that and we plan to offer  
14 educated aviation leaders into the future, but we're going  
15 to need the help of your Panel.

16           The second is to ensure high accountability of  
17 education programs and their providers. During these talks  
18 we've heard that people are holding accountability to  
19 department chairs, lower levels, and deans. But we're  
20 talking about accountability at presidential level, at  
21 chancellor level.

22           We want Governor Schwarzenegger to follow up and  
23 make sure that everyone is accountable.

24           It was Steve Olsen that was talking about the  
25 concept of Peoplesoft and the purchase that went into that,

1 and we want to see that the people who bought that software  
2 program are held accountable.

3 And I'm going to pass the mike to Ryan.

4 MR. KAHER: Hello, my name is Ryan Kaher,  
5 K-a-h-e-r, I'm an aviation student, here at San Jose State,  
6 and I'd like to share with you a few facts about aviation,  
7 how fundamental it is to the economy of our State.

8 Aviation contributes nearly nine percent of both  
9 total State employment and total State output for  
10 California. Aviation generates \$250 million in annual tax  
11 revenue. Aviation generated over \$14.5 billion in tourism  
12 dollars for California in 2001.

13 Additionally, California's air cargo was valued at  
14 \$173 billion in 2000.

15 Additionally, in local news, the San Jose Airport  
16 is redeveloping the airport at a cost of \$3 billion, that's  
17 a huge investment.

18 Additionally, Corporate Aviation, charter airlines  
19 are booming at San Jose.

20 COMMISSION CO-CHAIRPERSON HAUCK: Just as a point  
21 here, I know there was a recommendation to eliminate the  
22 Aviation Department at San Jose State; correct?

23 MR. KAHER: Yes, right.

24 COMMISSION CO-CHAIRPERSON HAUCK: But the CPR  
25 didn't recommend that?

1           MR. KAHER: No, it did not. No, we're going along  
2 with the CPR, we'd like to just ensure accountability.

3           COMMISSION CO-CHAIRPERSON HAUCK: We have quite a  
4 few recommendations on our hands that are in the report, and  
5 you're asking us to take on another one here. I don't know  
6 that we can do that. Go ahead and finish.

7           MR. NATALE: Well, basically, yeah, we're  
8 just -- Mike Natale, N-a-t-a-l-e. We're just here to try  
9 and turn the head of the Governor, if we can. Like we've  
10 been saying, just to hold those accountable.

11          As you already know, we've had lots of setbacks in  
12 our Aviation Department here. And just how does this all  
13 tie together? This is so vital to our economy, as a whole,  
14 and just look at the, as we've explained, how big of an  
15 economic impact this can have on our State here.

16          So please, don't shut us out. And if there is any  
17 help that you can do, we desperately need it right now. So  
18 thank you.

19          COMMISSION CO-CHAIRPERSON HAUCK: Thanks.

20          Sandra, are you speaking to the same issue?

21          MS. CLIFFORD: I'm talking from the industry. I'm  
22 an alumni and I'm the Chief Pilot for a Biotech Company  
23 here, in San Jose.

24          COMMISSION CO-CHAIRPERSON HAUCK: Okay. Well, you  
25 know this is not relevant to CPR?

1 MS. CLIFFORD: Actually, it's education, which is  
2 the issue. California --

3 COMMISSION CO-CHAIRPERSON HAUCK: You're  
4 stretching it here. You're stretching it.

5 MS. CLIFFORD: Okay. Ladies and gentlemen, please  
6 personally thank Governor Schwarzenegger for challenging  
7 everyone in this room. The California Performance Review  
8 makes us all accountable.

9 My name is Sandra J. Clifford. I wear many hats.  
10 I'm wife, mother, commercial pilot, chief pilot for a  
11 biotech company, here in San Jose. I'm an alum and the  
12 proud recipient of the Professional Pilot of the Year Award.

13 I'm here because I'm a concerned citizen. I was  
14 asked, May 27th, to be the commencement speaker at the  
15 Aviation Department. The Department lacked leadership,  
16 accountability, communication skills, professionalism. It  
17 had alienated the industry.

18 This Department is at our airport, which is  
19 funding a \$3 billion project. And the CSU system is not  
20 working with the airport. I find that very hard to believe.

21 Over the summer I met with these amazing students,  
22 when they had to open their course catalogue to find out if  
23 they were promised an education.

24 We have a problem.

25 As many of you are aware, President Yu, who was



1 here this summer, for 19 days -- is the Governor aware --  
2 this is my question, is the Governor aware of the problems  
3 here in San Jose, in the Mayor's Office, in our college, in  
4 our university? Is the Governor aware? And our question  
5 is, is he willing to look right and left at who sits at the  
6 table with him?

7 Is he willing to look at the Chancellor, that is  
8 my question?

9 COMMISSION CO-CHAIRPERSON HAUCK: Sharon.

10 MS. BORREGGE: Am I the last?

11 COMMISSION CO-CHAIRPERSON HAUCK: Probably.

12 MS. BORREGGE: Okay. I stand before you as a  
13 former State employee, with a different view, an opposing  
14 view from that expressed this morning. Not from the top  
15 down, but from the bottom up, having jeopardized everything,  
16 job, career, savings, credit rating, being \$50,000 in debt,  
17 health, sanity, and eventually my belief system, in my  
18 insistence that there be accountability in State government.

19 I was not aware that when I simply answered yes,  
20 as in yes, I want the posters down, and subsequently filed a  
21 complaint with DFEH 15 years ago, which I had been assured  
22 was a protected activity, that it would have the  
23 ramifications that it has had on me.

24 When the DFEH analyst walked me out, after my  
25 initial interview, she lowered her voice and said, "what you

1 are asking is one State agency to investigate another," and  
2 advised me to go elsewhere.

3           Since then, my odyssey through DFEH, EEOC, SPB,  
4 DPA, WCAB, and SCIF, exhausting the well-promoted  
5 administrative process for violations of Title VII and the  
6 Whistle-Blower Protection Law, has reinforced that the only  
7 protected activity are the petty to grand theft  
8 embezzlement, extortion, and bribery that are  
9 euphemistically referred to as "informal governmental  
10 activities" in the Legislature's -- I'm sorry, in the State  
11 Auditor's reports.

12           I stand here before you because I am scared that  
13 when I have exhausted the final remedy, which I anticipate  
14 will go the way of the others, what am I to do with my  
15 anger, and who has been made the example of?

16           I had been told a long time ago that, "do you  
17 think that they're going to get rid of us, they're going to  
18 get rid of you." And they did. It took them a while. They  
19 gave the honors to Surveys, where they put women in  
20 CalTRANS, when they want to be rid of them, and who, at 15  
21 years ago, had been the primary recipient of that informal  
22 policy of two years of tax-free per diem, year after year,  
23 after year.

24           They would assign people into field offices and  
25 they would give them two years of tax-free per diem, and

1 they were supposed to be taxed when the two years were over,  
2 but what they would do is they would find some reason to  
3 move them out for a week, or two weeks, and thereby  
4 reinitiate another two years of tax-free per diem, and this  
5 would go on for years, and years, and years in the same  
6 district.

7 My question is how do you intend to implement this  
8 through the culture that you've discussed? I was there when  
9 they implemented the California Engineer's Act. There are  
10 engineers at CalTRANS, who are in upper management, who have  
11 absolutely no idea how to manage and supervise the employees  
12 beneath them.

13 They have this denial defense. What they did in  
14 1989 is that they declassified the engineers and they made the  
15 second line supervisors first line supervisors, and the  
16 first line supervisors lead workers.

17 But they still allowed the second line  
18 supervisors, who were now first line supervisors, to remain  
19 in their isolated room down the hall, or in another  
20 building, or in another district, after they regionalized in  
21 1996.

22 And you may ask yourself, if this is the way they  
23 handle people, how do they handle projects. And in light of  
24 what is going on with Perata, and Schwarzenegger, and the  
25 Bay Bridge, let me just tell you this one project and then

1 I'll be done.

2 COMMISSION CO-CHAIRPERSON HAUCK: You've got to  
3 wind up, Sharon.

4 MS. BORREGE: This is an example. This is not how  
5 it is throughout, but this is how --

6 COMMISSION CO-CHAIRPERSON HAUCK: You've got to  
7 wind up, please.

8 MS. BORREGE: A recovery area is a design  
9 requirement. When they place a cable ankle assembly at the  
10 approaching end to a metal guardrail. Engineers oversaw the  
11 planning, design, and construction phase of a project that  
12 placed these between Carmel and Big Sur, on the ocean side  
13 of Highway 1, where the recovery area is the ocean floor.

14 The feds came out and they said, we are not  
15 reimbursing you for this, call us back when you've done it  
16 right.

17 COMMISSION CO-CHAIRPERSON HAUCK: Sharon, that's  
18 it. That's enough, you're finished.

19 MS. BORREGE: Okay.

20 COMMISSION CO-CHAIRPERSON HAUCK: Thank you.

21 Okay, I think we --

22 MS. BORREGE: There was no accountability, except  
23 for the taxpayers' back.

24 COMMISSION CO-CHAIRPERSON HAUCK: Thank you,  
25 Sharon, we got it. We got it, believe me.

1           With no further business to come before us today,  
2 we're adjourned.

3           (Thereupon, the August 27th meeting  
4 and public hearing of the  
5 California Performance Review was  
6 adjourned at 3:58 p.m.)

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## CERTIFICATE OF REPORTER

I, RONALD J. PETERS, a Certified Shorthand Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing State of California, California Performance Review Performance-Based Management, Personnel, Training, Procurement and Information Technology hearing was reported by my staff and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties in this matter, nor in any way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this 29th day of August, 2004

Ronald J. Peters

Certified Shorthand Reporter

License Number 2780

Certified Manager of Reporting Services

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